

## [COMMITTEE PRINT NO. 1]

## REVENUE ACT OF 1934

## COMPARATIVE PRINT

Showing Changes from Existing Law Made by the Bill as Passed by the  
House of Representatives

73<sup>d</sup> CONGRESS  
2<sup>d</sup> SESSION

## H. R. 7835

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IN THE SENATE OF THE UNITED STATES

FEBRUARY 20 (calendar day, FEBRUARY 22), 1934

Read twice and referred to the Committee on Finance

(Part printed in italic is new matter; part struck through is present law proposed to be omitted; part in roman type is present law in which no change is proposed)

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## AN ACT

To provide revenue, equalize taxation, and for other purposes.

1        *Be it enacted by the Senate and House of Representa-*  
2        *tives of the United States of America in Congress assembled,*  
3        That this Act, divided into titles and sections according to  
4        the following Table of Contents, may be cited as the "Reve-  
5        nue Act of ~~1932~~ 1934":

J. 41951—1

BEST AVAILABLE COPY

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## TITLE I—INCOME TAX

### SUBTITLE A—INTRODUCTORY PROVISIONS

#### SEC. 1. APPLICATION OF TITLE.

The provisions of this title shall apply only to the taxable year ~~1982~~ and succeeding taxable years beginning after December 31, 1933. Income, war-profits, and excess-profits taxes for taxable years preceding the taxable year ~~1982~~ beginning prior to January 1, 1934, shall not be affected by the provisions of this title, but shall remain subject to the applicable provisions of prior revenue Acts, except as such provisions are modified by Title ~~IX~~ III of this Act or by legislation enacted subsequent to this Act.

**1 SEC. 2. CROSS REFERENCES.**

**2** The cross references in this title to other portions of  
**3** the title, where the word "see" is used, are made only for  
**4** convenience, and shall be given no legal effect.

**5 SEC. 3. CLASSIFICATION OF PROVISIONS.**

**6** The provisions of this title are herein classified and  
**7** designated as—

**8** Subtitle A—Introductory provisions,

**9** Subtitle B—General provisions, divided into Parts  
**10** and sections,

**11** Subtitle C—Supplemental provisions, divided into  
**12** Supplements and sections.

**13 SEC. 4. SPECIAL CLASSES OF TAXPAYERS.**

**14** The application of the (General Provisions and of Supple-  
**15** ments A to D, inclusive, to each of the following special  
**16** classes of taxpayers, shall be subject to the exceptions and  
**17** additional provisions found in the Supplement applicable to  
**18** such class, as follows:

**19** (a) Estates and trusts and the beneficiaries thereof,—  
**20** Supplement E.

**21** (b) Members of partnerships,—Supplement F.

**22** (c) Insurance companies,—Supplement G.

**23** (d) Nonresident alien individuals,—Supplement H.

**24** (e) Foreign corporations,—Supplement I.

1 (f) Individual citizens of any possession of the United  
 2 States who are not otherwise citizens of the United States and  
 3 who are not residents of the United States,—Supplement J.

4 (g) Individual citizens of the United States or domestic  
 5 corporations, satisfying the conditions of section 251 by  
 6 reason of deriving a large portion of their gross income from  
 7 sources within a possession of the United States,—Supple-  
 8 ment J.

9 (h) China Trade Act corporations,—Supplement K.

## 10 SUBTITLE B—GENERAL PROVISIONS

### 11 Part I—Rates of Tax

#### 12 SEC. 11. NORMAL TAX ON INDIVIDUALS.

13 There shall be levied, collected, and paid for each tax-  
 14 able year upon the net income of every individual a normal  
 15 tax equal to the sum of the following:

16 (a) 4 per centum of the first \$4,000 of the  
 17 amount of the net income in excess of the credits against  
 18 net income provided in section 25; and

19 (b) 3 per centum of the remainder of such excess  
 20 amount.

21 There shall be levied, collected, and paid for each  
 22 taxable year upon the net income of every individual a  
 23 normal tax of 4 per centum of the amount of the net income  
 24 in excess of the credits against net income provided in  
 25 section 25.

**1 SEC. 12. SURTAX ON INDIVIDUALS.**

**2 (a) RATES OF SURTAX.**—There shall be levied, col-  
**3 lected, and paid for each taxable year upon the net income**  
**4 of every individual a surtax as follows:**

**5 Upon a net income of \$6,000 there shall be no**  
**6 surtax; upon net incomes in excess of \$6,000 and not**  
**7 in excess of \$10,000, 1 per centum of such excess.**

**8 \$40 upon net incomes of \$10,000; and upon net**  
**9 incomes in excess of \$10,000 and not in excess of**  
**10 \$12,000, 2 per centum in addition of such excess.**

**11 \$80 upon net incomes of \$12,000; and upon net**  
**12 incomes in excess of \$12,000 and not in excess of**  
**13 \$14,000, 3 per centum in addition of such excess.**

**14 \$140 upon net incomes of \$14,000; and upon net**  
**15 incomes in excess of \$14,000 and not in excess of**  
**16 \$16,000, 4 per centum in addition of such excess.**

**17 \$220 upon net incomes of \$16,000; and upon net**  
**18 incomes in excess of \$16,000 and not in excess of**  
**19 \$18,000, 5 per centum in addition of such excess.**

**20 \$320 upon net incomes of \$18,000; and upon net**  
**21 incomes in excess of \$18,000 and not in excess of**  
**22 \$20,000, 6 per centum in addition of such excess.**

**23 \$440 upon net incomes of \$20,000; and upon net**  
**24 incomes in excess of \$20,000 and not in excess of**  
**25 \$22,000, 8 per centum in addition of such excess.**



1           **\$600 upon net incomes of \$22,000; and upon net**  
2 **incomes in excess of \$22,000 and not in excess of**  
3 **\$24,000, 9 per centum in addition of such excess.**

4           **\$780 upon net incomes of \$24,000; and upon net**  
5 **incomes in excess of \$24,000 and not in excess of**  
6 **\$26,000, 10 per centum in addition of such excess.**

7           **\$980 upon net incomes of \$26,000; and upon net**  
8 **incomes in excess of \$26,000 and not in excess of**  
9 **\$28,000, 11 per centum in addition of such excess.**

10           **\$1,200 upon net incomes of \$28,000; and upon**  
11 **net incomes in excess of \$28,000 and not in excess of**  
12 **\$30,000, 12 per centum in addition of such excess.**

13           **\$1,440 upon net incomes of \$30,000; and upon**  
14 **net incomes in excess of \$30,000 and not in excess of**  
15 **\$32,000, 13 per centum in addition of such excess.**

16           **\$1,700 upon net incomes of \$32,000; and upon**  
17 **net incomes in excess of \$32,000 and not in excess of**  
18 **\$36,000, 15 per centum in addition of such excess.**

19           **\$2,300 upon net incomes of \$36,000; and upon**  
20 **net incomes in excess of \$36,000 and not in excess of**  
21 **\$38,000, 16 per centum in addition of such excess.**

22           **\$2,620 upon net incomes of \$38,000; and upon**  
23 **net incomes in excess of \$38,000 and not in excess of**  
24 **\$40,000, 17 per centum in addition of such excess.**

1           **\$2,000** upon net incomes of **\$40,000**; and upon  
2 net incomes in excess of **\$40,000** and not in excess of  
3 **\$42,000**, 18 per centum in addition of such excess.

4           **\$3,320** upon net incomes of **\$42,000**; and upon  
5 net incomes in excess of **\$42,000** and not in excess of  
6 **\$44,000**, 19 per centum in addition of such excess.

7           **\$3,700** upon net incomes of **\$44,000**; and upon  
8 net incomes in excess of **\$44,000** and not in excess of  
9 **\$46,000**, 20 per centum in addition of such excess.

10           **\$4,100** upon net incomes of **\$46,000**; and upon  
11 net incomes in excess of **\$46,000** and not in excess of  
12 **\$48,000**, 21 per centum in addition of such excess.

13           **\$4,520** upon net incomes of **\$48,000**; and upon  
14 net incomes in excess of **\$48,000** and not in excess of  
15 **\$50,000**, 22 per centum in addition of such excess.

16           **\$4,960** upon net incomes of **\$50,000**; and upon  
17 net incomes in excess of **\$50,000** and not in excess of  
18 **\$52,000**, 23 per centum in addition of such excess.

19           **\$5,420** upon net incomes of **\$52,000**; and upon  
20 net incomes in excess of **\$52,000** and not in excess of  
21 **\$54,000**, 24 per centum in addition of such excess.

22           **\$5,900** upon net incomes of **\$54,000**; and upon  
23 net incomes in excess of **\$54,000** and not in excess of  
24 **\$56,000**, 25 per centum in addition of such excess.

1           **\$6,400** upon net incomes of **\$56,000**; and upon  
2 net incomes in excess of **\$56,000** and not in excess of  
3 **\$58,000**, **26** per centum in addition of such excess.

4           **\$6,920** upon net incomes of **\$58,000**; and upon  
5 net incomes in excess of **\$58,000** and not in excess of  
6 **\$60,000**, **27** per centum in addition of such excess.

7           **\$7,460** upon net incomes of **\$60,000**; and upon  
8 net incomes in excess of **\$60,000** and not in excess of  
9 **\$62,000**, **28** per centum in addition of such excess.

10           **\$8,020** upon net incomes of **\$62,000**; and upon  
11 net incomes in excess of **\$62,000** and not in excess of  
12 **\$64,000**, **29** per centum in addition of such excess.

13           **\$8,600** upon net incomes of **\$64,000**; and upon  
14 net incomes in excess of **\$64,000** and not in excess of  
15 **\$66,000**, **30** per centum in addition of such excess.

16           **\$9,200** upon net incomes of **\$66,000**; and upon  
17 net incomes in excess of **\$66,000** and not in excess of  
18 **\$68,000**, **31** per centum in addition of such excess.

19           **\$9,820** upon net incomes of **\$68,000**; and upon  
20 net incomes in excess of **\$68,000** and not in excess of  
21 **\$70,000**, **32** per centum in addition of such excess.

22           **\$10,460** upon net incomes of **\$70,000**; and upon  
23 net incomes in excess of **\$70,000** and not in excess of  
24 **\$72,000**, **33** per centum in addition of such excess.

1           **\$11,120** upon net incomes of **\$72,000**; and upon  
2 net incomes in excess of **\$72,000** and not in excess of  
3 **\$74,000**, **34** per centum in addition of such excess.

4           **\$11,800** upon net incomes of **\$74,000**; and upon  
5 net incomes in excess of **\$74,000** and not in excess of  
6 **\$76,000**, **35** per centum in addition of such excess.

7           **\$12,500** upon net incomes of **\$76,000**; and upon  
8 net incomes in excess of **\$76,000** and not in excess  
9 of **\$78,000**, **36** per centum in addition of such excess.

10           **\$13,220** upon net incomes of **\$78,000**; and upon  
11 net incomes in excess of **\$78,000** and not in excess  
12 of **\$80,000**, **37** per centum in addition of such excess.

13           **\$13,960** upon net incomes of **\$80,000**; and upon  
14 net incomes in excess of **\$80,000** and not in excess  
15 of **\$82,000**, **38** per centum in addition of such excess.

16           **\$14,720** upon net incomes of **\$82,000**; and upon  
17 net incomes in excess of **\$82,000** and not in excess  
18 of **\$84,000**, **39** per centum in addition of such excess.

19           **\$15,500** upon net incomes of **\$84,000**; and upon  
20 net incomes in excess of **\$84,000** and not in excess  
21 of **\$86,000**, **40** per centum in addition of such excess.

22           **\$16,300** upon net incomes of **\$86,000**; and upon  
23 net incomes in excess of **\$86,000** and not in excess  
24 of **\$88,000**, **41** per centum in addition of such excess.

1           **\$17,120** upon net incomes of **\$88,000**; and upon  
2 net incomes in excess of **\$88,000**, and net in excess  
3 of **\$90,000**, 42 per centum in addition of such excess.

4           **\$17,000** upon net incomes of **\$90,000**; and upon  
5 net incomes in excess of **\$90,000** and net in excess of  
6 **\$92,000**, 43 per centum in addition of such excess.

7           **\$18,820** upon net incomes of **\$92,000**; and upon  
8 net incomes in excess of **\$92,000** and net in excess of  
9 **\$94,000**, 44 per centum in addition of such excess.

10           **\$19,700** upon net incomes of **\$94,000**; and upon  
11 net incomes in excess of **\$94,000** and net in excess of  
12 **\$96,000**, 45 per centum in addition of such excess.

13           **\$20,600** upon net incomes of **\$96,000**; and upon  
14 net incomes in excess of **\$96,000** and net in excess of  
15 **\$98,000**, 46 per centum in addition of such excess.

16           **\$21,520** upon net incomes of **\$98,000**; and upon  
17 net incomes in excess of **\$98,000** and net in excess of  
18 **\$100,000**, 47 per centum in addition of such excess.

19           **\$22,460** upon net incomes of **\$100,000**; and upon  
20 net incomes in excess of **\$100,000** and net in excess of  
21 **\$150,000**, 48 per centum in addition of such excess.

22           **\$46,460** upon net incomes of **\$150,000**; and upon  
23 net incomes in excess of **\$150,000** and net in excess of  
24 **\$200,000**, 49 per centum in addition of such excess.

1           **\$70,960** upon net incomes of **\$200,000**; and upon  
2 net incomes in excess of **\$200,000** and not in excess of  
3 **\$300,000**, 50 per centum in addition of such excess.

4           **\$120,960** upon net incomes of **\$300,000**; and  
5 upon net incomes in excess of **\$300,000** and not in  
6 excess of **\$400,000**, 51 per centum in addition of such  
7 excess.

8           **\$171,960** upon net incomes of **\$400,000**; and  
9 upon net incomes in excess of **\$400,000** and not in  
10 excess of **\$500,000**, 52 per centum in addition of such  
11 excess.

12           **\$223,960** upon net incomes of **\$500,000**; and  
13 upon net incomes in excess of **\$500,000** and not in  
14 excess of **\$750,000**, 53 per centum in addition of such  
15 excess.

16           **\$256,460** upon net incomes of **\$750,000**; and  
17 upon net incomes in excess of **\$750,000** and not in  
18 excess of **\$1,000,000**, 54 per centum in addition of such  
19 excess.

20           **\$491,460** upon net incomes of **\$1,000,000**; and  
21 upon net incomes in excess of **\$1,000,000**, 55 per  
22 centum in addition of such excess.

23           (a) *DEFINITION OF "SURTAX NET INCOME".—As*  
24 *used in this section the term "surtax net income" means the*

1 amount of the net income in excess of the credits against net  
2 income provided in section 25 (b).

3 (b) RATES OF SURTAX.—There shall be levied, col-  
4 lected, and paid for each taxable year upon the surtax net  
5 income of every individual a surtax as follows:

6 Upon a surtax net income of \$4,000 there shall be  
7 no surtax; upon surtax net incomes in excess of \$4,000  
8 and not in excess of \$8,000, 4 per centum of such excess.

9 \$160 upon surtax net incomes of \$8,000; and upon  
10 surtax net incomes in excess of \$8,000 and not in excess  
11 of \$10,000, 5 per centum in addition of such excess.

12 \$260 upon surtax net incomes of \$10,000; and  
13 upon surtax net incomes in excess of \$10,000 and not in  
14 excess of \$12,000, 6 per centum in addition of such  
15 excess.

16 \$380 upon surtax net incomes of \$12,000; and  
17 upon surtax net incomes in excess of \$12,000 and not  
18 in excess of \$14,000, 7 per centum in addition of such  
19 excess.

20 \$520 upon surtax net incomes of \$14,000; and  
21 upon surtax net incomes in excess of \$14,000 and not  
22 in excess of \$16,000, 8 per centum in addition of such  
23 excess.

24 \$680 upon surtax net incomes of \$16,000; and  
25 upon surtax net incomes in excess of \$16,000 and not

1 in excess of \$18,000, 10 per centum in addition of  
2 such excess.

3 \$880 upon surtax net incomes of \$18,000; and  
4 upon surtax net incomes in excess of \$18,000 and not  
5 in excess of \$20,000, 12 per centum in addition of such  
6 excess.

7 \$1,120 upon surtax net incomes of \$20,000; and  
8 upon surtax net incomes in excess of \$20,000 and not  
9 in excess of \$22,000, 14 per centum in addition of  
10 such excess.

11 \$1,400 upon surtax net incomes of \$22,000; and  
12 upon surtax net incomes in excess of \$22,000 and not  
13 in excess of \$26,000, 16 per centum in addition of such  
14 excess.

15 \$2,040 upon surtax net incomes of \$26,000; and  
16 upon surtax net incomes in excess of \$26,000 and not  
17 in excess of \$32,000, 18 per centum in addition of such  
18 excess.

19 \$3,120 upon surtax net incomes of \$32,000; and  
20 upon surtax net incomes in excess of \$32,000 and not  
21 in excess of \$38,000, 21 per centum in addition of  
22 such excess.

23 \$4,380 upon surtax net incomes of \$38,000; and  
24 upon surtax net incomes in excess of \$38,000 and not  
25 in excess of \$44,000, 24 per centum in addition of such  
26 excess.



1           \$5,820 upon surtax net incomes of \$44,000; and  
2           upon surtax net incomes in excess of \$44,000 and not  
3           in excess of \$50,000, 27 per centum in addition of such  
4           excess.

5           \$7,440 upon surtax net incomes of \$50,000; and  
6           upon surtax net incomes in excess of \$50,000 and not  
7           in excess of \$56,000, 30 per centum in addition of such  
8           excess.

9           \$9,240 upon surtax net incomes of \$56,000; and  
10          upon surtax net incomes in excess of \$56,000 and not  
11          in excess of \$62,000, 33 per centum in addition of such  
12          excess.

13          \$11,220 upon surtax net incomes of \$62,000;  
14          and upon surtax net incomes in excess of \$62,000 and  
15          not in excess of \$68,000, 36 per centum in addition of  
16          such excess.

17          \$13,380 upon surtax net incomes of \$68,000;  
18          and upon surtax net incomes in excess of \$68,000 and  
19          not in excess of \$74,000, 39 per centum in addition of  
20          such excess.

21          \$15,720 upon surtax net incomes of \$74,000;  
22          and upon surtax net incomes in excess of \$74,000 and  
23          not in excess of \$80,000, 42 per centum in addition of  
24          such excess.

1           *\$18,240 upon surtax net incomes of \$80,000; and*  
2           *upon surtax net incomes in excess of \$80,000 and not in*  
3           *excess of \$90,000, 45 per centum in addition of such*  
4           *excess.*

5           *\$22,740 upon surtax net incomes of \$90,000; and*  
6           *upon surtax net incomes in excess of \$90,000 and not*  
7           *in excess of \$100,000, 50 per centum in addition of*  
8           *such excess.*

9           *\$27,740 upon surtax net incomes of \$100,000;*  
10          *and upon surtax net incomes in excess of \$100,000*  
11          *and not in excess of \$150,000, 52 per centum in*  
12          *addition of such excess.*

13          *\$53,740 upon surtax net incomes of \$150,000;*  
14          *and upon surtax net incomes in excess of \$150,000*  
15          *and not in excess of \$200,000, 53 per centum in addi-*  
16          *tion of such excess.*

17          *\$80,240 upon surtax net incomes of \$200,000;*  
18          *and upon surtax net incomes in excess of \$200,000*  
19          *and not in excess of \$300,000, 54 per centum in*  
20          *addition of such excess.*

21          *\$134,240 upon surtax net incomes of \$300,000;*  
22          *and upon surtax net incomes in excess of \$300,000*  
23          *and not in excess of \$400,000, 55 per centum in addi-*  
24          *tion of such excess.*

25          *\$189,240 upon surtax net incomes of \$400,000;*  
26          *and upon surtax net incomes in excess of \$400,000*

1 *and not in excess of \$500,000, 56 per centum in addi-*  
 2 *tion of such excess.*

3 *\$245,240 upon surtax net incomes of \$500,000;*  
 4 *and upon surtax net incomes in excess of \$500,000*  
 5 *and not in excess of \$750,000, 57 per centum in*  
 6 *addition of such excess.*

7 *\$387,740 upon surtax net incomes of \$750,000;*  
 8 *and upon surtax net incomes in excess of \$750,000 and*  
 9 *not in excess of \$1,000,000, 58 per centum in addition*  
 10 *of such excess.*

11 *\$532,740 upon surtax net incomes of \$1,000,000;*  
 12 *and upon surtax net incomes in excess of \$1,000,000,*  
 13 *59 per centum in addition of such excess.*

14 **(b) SALE OF MINES AND OIL OR GAS WELLS.**—For  
 15 **limitation of surtax attributable to sale of mines and oil or**  
 16 **gas wells, see section 102.**

17 **(c) CAPITAL NET GAINS AND LOSSES.**—For rate and  
 18 **computation of tax in lieu of normal and surtax in case of net**  
 19 **incomes of not less than \$16,000, approximately, or in case**  
 20 **of net incomes, excluding items of capital gain, capital loss,**  
 21 **and capital deductions, of not less than \$16,000, approxi-**  
 22 **mately, see section 101.**

23 **(c) TAX ON PERSONAL HOLDING COMPANIES.**—For  
 24 **tax on personal holding companies, see section 102.**

1 (d) **EVASION AVOIDANCE OF SURTAXES BY INCOR-**  
 2 **PORATION.**—For tax on corporations which accumulate  
 3 surplus to evade *avoid* surtax on stockholders, see section  
 4 ~~104~~ 103.

5 **SEC. 13. TAX ON CORPORATIONS.**

6 (a) **RATE OF TAX.**—There shall be levied, collected,  
 7 and paid for each taxable year upon the net income of every  
 8 corporation, a tax of  $13\frac{3}{4}$  per centum of the amount of the  
 9 net income in excess of the credit against net income pro-  
 10 vided in section 26. (*For addition to rate in case of con-*  
 11 *solidated returns, see section 141.*)

12 (b) **EXEMPT CORPORATIONS.**—For corporations ex-  
 13 empt from tax, see section ~~108~~ 101.

14 (c) **TAX ON PERSONAL HOLDING COMPANIES.**—For  
 15 tax on personal holding companies, see section 102.

16 ~~(e)~~ (d) **IMPROPER ACCUMULATION OF SURPLUS.**—  
 17 For tax on corporations which accumulate surplus to evade  
 18 *avoid* internal-revenue tax *surtax* on stockholders, see section  
 19 ~~104~~ 103.

20 **SEC. 14. TAXABLE PERIOD EMBRACING YEARS WITH**  
 21 **DIFFERENT LAWS.**

22 If a taxable period embraces portions of two calendar  
 23 years for which the laws are different, the tax shall be  
 24 computed as provided in section 105.

1                   **Part II—Computation of Net Income**

2   **SEC. 21. NET INCOME.**

3           “Net income” means the gross income computed  
4 under section 22, less the deductions allowed by section 23.

5   **SEC. 22. GROSS INCOME.**

6           **(a) GENERAL DEFINITION.**—“Gross income” in-  
7 cludes gains, profits, and income derived from salaries,  
8 wages, or compensation for personal service, of whatever  
9 kind and in whatever form paid, or from professions, voca-  
10 tions, trades, businesses, commerce, or sales, or dealings in  
11 property, whether real or personal, growing out of the  
12 ownership or use of or interest in such property; also from  
13 interest, rent, dividends, securities, or the transaction of  
14 any business carried on for gain or profit, or gains or profits  
15 and income derived from any source whatever. In the  
16 case of Presidents of the United States and judges of courts  
17 of the United States taking office after the date of the  
18 enactment of this Act *June 6, 1932*, the compensation  
19 received as such shall be included in gross income; and all  
20 Acts fixing the compensation of such Presidents and judges  
21 are hereby amended accordingly.

22           **(b) EXCLUSIONS FROM GROSS INCOME.**—The fol-  
23 lowing items shall not be included in gross income and shall  
24 be exempt from taxation under this title:

1           (1) LIFE INSURANCE.—Amounts received under  
2 a life insurance contract paid by reason of the death of  
3 the insured, whether in a single sum or ~~in installments~~  
4 *otherwise* (but if such amounts are held by the insurer  
5 under an agreement to pay interest thereon, the interest  
6 payments shall be included in gross income) ;

7           (2) ANNUITIES, ETC.—Amounts received (other  
8 than amounts paid by reason of the death of the insured  
9 and interest payments on such amounts *and other than*  
10 *amounts received as annuities*) under a life insurance,  
11 ~~endowment, or annuity insurance or endowment con-~~  
12 ~~tract,~~ but if such amounts (when added to amounts  
13 received before the taxable year under such contract)  
14 exceed the aggregate premiums or consideration paid  
15 (whether or not paid during the taxable year) then the  
16 excess shall be included in gross income. *Amounts*  
17 *received as annuities under annuity or endowment con-*  
18 *tracts shall be included in gross income; except that there*  
19 *shall be excluded from gross income the excess of the*  
20 *amount received in the taxable year over an amount*  
21 *equal to 3 per centum of the aggregate premiums or*  
22 *consideration paid (whether or not paid during such*  
23 *year), until the aggregate amount excluded from gross*  
24 *income under this title or prior income tax laws equals*  
25 *the aggregate premiums or consideration paid. In the*

1 case of a transfer for a valuable consideration, by assign-  
 2 ment or otherwise, of a life insurance, endowment, or  
 3 annuity contract, or any interest therein, only the actual  
 4 value of such consideration and the amount of the  
 5 premiums and other sums subsequently paid by the  
 6 transferee shall be exempt from taxation under para-  
 7 graph (1) or this paragraph;

8 (3) GIFTS, BEQUESTS, AND DEVISES.—The value  
 9 of property acquired by gift, bequest, devise, or inherit-  
 10 ance (but the income from such property shall be  
 11 included in gross income) ;

12 (4) TAX-FREE INTEREST.—Interest upon (A)  
 13 the obligations of a State, Territory, or any political sub-  
 14 division thereof, or the District of Columbia; or (B)  
 15 securities issued under the provisions of the Federal  
 16 Farm Loan Act, or under the provisions of such Act as  
 17 amended obligations of a corporation organized under  
 18 Act of Congress, if such corporation is an instrumen-  
 19 tality of the United States; or (C) the obligations of  
 20 the United States or its possessions. Every person  
 21 owning any of the obligations or securities enumerated  
 22 in clause (A), (B), or (C) shall, in the return re-  
 23 quired by this title, submit a statement showing the  
 24 number and amount of such obligations and securities

1 owned by him and the income received therefrom, in  
2 such form and with such information as the Commis-  
3 sioner may require. In the case of obligations of the  
4 United States issued after September 1, 1917 (other  
5 than postal savings certificates of deposit) *and in the*  
6 *case of obligations of a corporation organized under Act*  
7 *of Congress*, the interest shall be exempt only if and  
8 to the extent provided in the respective Acts authoriz-  
9 ing the issue thereof as amended and supplemented, and  
10 shall be excluded from gross income only if and to the  
11 extent it is wholly exempt to the taxpayer from the  
12 taxes imposed by this title;

13 (5) **COMPENSATION FOR INJURIES OR SICK-**  
14 **NESS.**—Amounts received, through accident or health  
15 insurance or under workmen's compensation acts, as  
16 compensation for personal injuries or sickness, plus the  
17 amount of any damages received whether by suit or  
18 agreement on account of such injuries or sickness;

19 (6) **MINISTERS.**—The rental value of a dwelling  
20 house and appurtenances thereof furnished to a minister  
21 of the gospel as part of his compensation;

22 (7) **MISCELLANEOUS ITEMS.**—The following  
23 items, to the extent provided in section 116:

24 Earned income from sources without the  
25 United States;



1 Salaries of certain Territorial employees;  
2 The income of foreign governments;  
3 Income of States, municipalities, and other  
4 political subdivisions;  
5 Receipts of shipowners' mutual protection  
6 and indemnity associations;  
7 Dividends from China Trade Act corpora-  
8 tions.

9 (c) INVENTORIES.—Whenever in the opinion of the  
10 Commissioner the use of inventories is necessary in order  
11 clearly to determine the income of any taxpayer, inven-  
12 tories shall be taken by such taxpayer upon such basis as  
13 the Commissioner, with the approval of the Secretary, may  
14 prescribe as conforming as nearly as may be to the best  
15 accounting practice in the trade or business and as most  
16 clearly reflecting the income.

17 (d) DISTRIBUTIONS BY CORPORATIONS.—Distribu-  
18 tions by corporations shall be taxable to the shareholders as  
19 provided in section 115.

20 (e) DETERMINATION OF GAIN OR LOSS.—In the case  
21 of a sale or other disposition of property, the gain or loss  
22 shall be computed as provided in sections 111, 112, and 113  
23 section 111.

24 (f) GROSS INCOME FROM SOURCES WITHIN AND  
25 WITHOUT UNITED STATES.—For computation of gross in-

1 come from sources within and without the United States,  
2 see section 119.

3 **SEC. 23. DEDUCTIONS FROM GROSS INCOME.**

4 In computing net income there shall be allowed as  
5 deductions:

6 (a) **EXPENSES.**—All the ordinary and necessary ex-  
7 penses paid or incurred during the taxable year in carrying  
8 on any trade or business, including a reasonable allowance  
9 for salaries or other compensation for personal services  
10 actually rendered; traveling expenses (including the entire  
11 amount expended for meals and lodging) while away from  
12 home in the pursuit of a trade or business; and rentals  
13 or other payments required to be made as a condition to  
14 the continued use or possession, for purposes of the trade  
15 or business, of property to which the taxpayer has not  
16 taken or is not taking title or in which he has no equity.

17 (b) **INTEREST.**—All interest paid or accrued within  
18 the taxable year on indebtedness, except (1) on indebted-  
19 ness incurred or continued to purchase or carry, *or the pro-*  
20 *ceeds of which were used to purchase or carry, obligations or*  
21 *securities*, (other than obligations of the United States  
22 issued after September 24, 1917, and originally subscribed  
23 for by the taxpayer) the interest upon which is wholly  
24 exempt from the taxes imposed by this title, or (2) on

1 indebtedness incurred or continued, *or the proceeds of which*  
 2 *were used*, in connection with the purchasing or carrying  
 3 of an annuity.

4 (c) TAXES GENERALLY.—Taxes paid or accrued  
 5 within the taxable year, except—

6 (1) *Federal* income, war-profits, and excess-  
 7 profits taxes imposed by the authority of the United  
 8 States;

9 (2) income, war-profits, and excess-profits taxes  
 10 imposed by the authority of any foreign country or pos-  
 11 session of the United States; but this deduction shall be  
 12 allowed in the case of a taxpayer who does not signify  
 13 in his return his desire to have to any extent the  
 14 benefits of section 131 (relating to credit for taxes  
 15 of foreign countries and possessions of the United  
 16 States); and

17 (3) *estate, inheritance, legacy, succession, and*  
 18 *gift taxes; and*

19 ~~(3)~~ (4) taxes assessed against local benefits of a  
 20 kind tending to increase the value of the property  
 21 assessed; but this paragraph shall not exclude the allow-  
 22 ance as a deduction of so much of such taxes as is  
 23 properly allocable to maintenance or interest charges.

24 For the purpose of this subsection, ~~estate, inheritance, legacy,~~  
 25 ~~and succession taxes accrue on the due date thereof, except~~

1 as otherwise provided by the law of the jurisdiction imposing  
2 such taxes, and shall be allowed as a deduction only to the  
3 estate.

4 (d) TAXES OF SHAREHOLDER PAID BY CORPORA-  
5 TION.—The deduction for taxes allowed by subsection (c).  
6 shall be allowed to a corporation in the case of taxes  
7 imposed upon a shareholder of the corporation upon his  
8 interest as shareholder which are paid by the corporation  
9 without reimbursement from the shareholder, but in such  
10 cases no deduction shall be allowed the shareholder for the  
11 amount of such taxes.

12 (e) LOSSES BY INDIVIDUALS.—Subject to the limita-  
13 tions provided in subsection (r) of this section, in In the  
14 case of an individual, losses sustained during the taxable  
15 year and not compensated for by insurance or otherwise—

16 (1) if incurred in trade or business; or

17 (2) if incurred in any transaction entered into for  
18 profit, though not connected with the trade or  
19 business; or

20 (3) of property not connected with the trade or  
21 business, if the loss arises from fires, storms, shipwreck,  
22 or other casualty, or from theft. No loss shall be allowed  
23 as a deduction under this paragraph if at the time of  
24 the filing of the return such loss has been claimed as

1 a deduction for estate tax purposes in the estate tax  
2 return.

3 (f) LOSSES BY CORPORATIONS.—~~Subject to the limi-~~  
4 ~~tations provided in subsection (r) of this section, in~~ *In* the  
5 case of a corporation, losses sustained during the taxable  
6 year and not compensated for by insurance or otherwise.

7 (g) WAGERING LOSSES.—*Losses from wagering*  
8 *transactions shall be allowed only to the extent of the gains*  
9 *from such transactions.*

10 ~~(g)~~ (h) BASIS FOR DETERMINING LOSS.—The basis  
11 for determining the amount of deduction for losses sustained,  
12 to be allowed under subsection (e) or (f), shall be the  
13 adjusted basis provided in section 113 (b) for determining  
14 the gain or loss from the sale or other disposition of  
15 property.

16 ~~(h)~~ (i) LOSS ON WASH SALES OF STOCK OR SECURI-  
17 TIES.—For disallowance of loss deduction in the case of  
18 sales of stock or securities where within thirty days before  
19 or after the date of the sale the taxpayer has acquired  
20 substantially identical property, see section 118.

21 (j) CAPITAL LOSSES.—*Losses from sales or ex-*  
22 *changes of capital assets shall be allowed only to the extent*  
23 *provided in section 117(d).*

24 ~~(j)~~ (k) BAD DEBTS.—Debts ascertained to be worth-  
25 less and charged off within the taxable year (or, in the discre-

1 tion of the Commissioner, a reasonable addition to a reserve  
2 for bad debts) ; and when satisfied that a debt is recover-  
3 able only in part, the Commissioner may allow such debt.  
4 in an amount not in excess of the part charged off within  
5 the taxable year, as a deduction.

6 ~~(k)~~ (l) DEPRECIATION.—A reasonable allowance for  
7 the exhaustion, wear and tear of property used in the trade or  
8 business, including a reasonable allowance for obsolescence.  
9 In the case of property held by one person for life with  
10 remainder to another person, the deduction shall be com-  
11 puted as if the life tenant were the absolute owner of the  
12 property and shall be allowed to the life tenant. In the  
13 case of property held in trust the allowable deduction shall  
14 be apportioned between the income beneficiaries and the  
15 trustee in accordance with the pertinent provisions of the  
16 instrument creating the trust, or, in the absence of such  
17 provisions, on the basis of the trust income allocable to each.

18 ~~(H)~~ (m) DEPLETION.—In the case of mines, oil and gas  
19 wells, other natural deposits, and timber, a reasonable allow-  
20 ance for depletion and for depreciation of improvements,  
21 according to the peculiar conditions in each case; such rea-  
22 sonable allowance in all cases to be made under rules and  
23 regulations to be prescribed by the Commissioner, with the  
24 approval of the Secretary. In any case in which it is ascer-  
25 tained as a result of operations or of development work that

1 the recoverable units are greater or less than the prior esti-  
2 mate thereof, then such prior estimate (but not the basis for  
3 depletion) shall be revised and the allowance under this  
4 subsection for subsequent taxable years shall be based upon  
5 such revised estimate. In the case of leases the deductions  
6 shall be equitably apportioned between the lessor and lessee.  
7 In the case of property held by one person for life with  
8 remainder to another person, the deduction shall be computed  
9 as if the life tenant were the absolute owner of the property  
10 and shall be allowed to the life tenant. In the case of  
11 property held in trust the allowable deduction shall be appor-  
12 tioned between the income beneficiaries and the trustee in  
13 accordance with the pertinent provisions of the instrument  
14 creating the trust, or, in the absence of such provisions, on  
15 the basis of the trust income allocable to each. (For per-  
16 centage depletion *allowable under this subsection*, see section  
17 114 (b), (3) and (4).)

18 ~~(m)~~ (n) BASIS FOR DEPRECIATION AND DEPLE-  
19 TION.—The basis upon which depletion, exhaustion, wear  
20 and tear, and obsolescence are to be allowed in respect  
21 of any property shall be as provided in section 114.

22 ~~(n)~~ (o) CHARITABLE AND OTHER CONTRIBU-  
23 TIONS.—In the case of an individual, contributions or gifts  
24 made within the taxable year to or for the use of:

1           (1) the United States, any State, Territory, or  
2           any political subdivision thereof, or the District of  
3           Columbia, for exclusively public purposes;

4           (2) a corporation, or trust, or community chest,  
5           fund, or foundation, organized and operated exclusively  
6           for religious, charitable, scientific, literary, or educa-  
7           tional purposes, or for the prevention of cruelty to  
8           children or animals, no part of the net earnings of  
9           which inures to the benefit of any private shareholder  
10          or individual;

11          (3) the special fund for vocational rehabilitation  
12          authorized by section 12 of the World War Veterans'  
13          Act, 1924;

14          (4) posts or organizations of war veterans, or  
15          auxiliary units or societies of any such posts or organi-  
16          zations, if such posts, organizations, units, or societies  
17          are organized in the United States or any of its posses-  
18          sions, and if no part of their net earnings inures to the  
19          benefit of any private shareholder or individual; or

20          (5) a fraternal society, order, or association  
21          operating under the lodge system, but only if such  
22          contributions or gifts are to be used exclusively for  
23          religious, charitable, scientific, literary, or educational  
24          purposes, or for the prevention of cruelty to children  
25          or animals;



1. to an amount which in all the above cases combined does  
2. not exceed 15 per centum of the taxpayer's net income as  
3. computed without the benefit of this subsection. Such con-  
4. tributions or gifts shall be allowable as deductions only if  
5. verified under rules and regulations prescribed by the Com-  
6. missioner, with the approval of the Secretary. (For  
7. unlimited deduction if contributions and gifts exceed 90 per  
8. centum of the net income, see section 120.)

9.       (6) FUTURE EXPENSES IN CASE OF CASUAL SALES  
10. OF REAL PROPERTY.—In the case of a casual sale or other  
11. casual disposition of real property by an individual, a reason-  
12. able allowance for future expense liabilities, incurred under  
13. the provisions of the contract under which such sale or  
14. other disposition was made, under such regulations as the  
15. Commissioner, with the approval of the Secretary, may  
16. prescribe, including the giving of a bond, with such sureties  
17. and in such sum (not less than the estimated tax liability  
18. computed without the benefit of this subsection) as the  
19. Commissioner may require, conditioned upon the payment  
20. (notwithstanding any statute of limitations) of the tax, com-  
21. puted without the benefit of this subsection, in respect of any  
22. amounts allowed as a deduction under this subsection and  
23. not actually expended in carrying out the provisions of such  
24. contract.

1 (p) DIVIDENDS RECEIVED BY CORPORATIONS.—In  
2 the case of a corporation, the amount received as dividends—

3 ~~(1)~~ from a domestic corporation which is subject  
4 to taxation under this title, or

5 dividends from a domestic corporation which is subject to  
6 taxation under this title.

7 ~~(2)~~ from any foreign corporation when it is shown  
8 to the satisfaction of the Commissioner that more than  
9 50 per centum of the gross income of such foreign  
10 corporation for the three-year period ending with the  
11 close of its taxable year preceding the declaration of  
12 such dividends (or for such part of such period as the  
13 foreign corporation has been in existence) was derived  
14 from sources within the United States as determined  
15 under section 110.

16 The deduction allowed by this subsection shall not be allowed  
17 in respect of dividends received from a corporation organized  
18 under the China Trade Act, 1922, or from a corporation  
19 which under section 251 is taxable only on its gross income  
20 from sources within the United States by reason of its  
21 receiving a large percentage of its gross income from sources  
22 within a possession of the United States.

23 (q) PENSION TRUSTS.—An employer establishing or  
24 maintaining a pension trust to provide for the payment of  
25 reasonable pensions to his employees (if such trust is exempt

1 from tax under section 165, relating to trusts created for the  
 2 exclusive benefit of employees) shall be allowed as a deduc-  
 3 tion (in addition to the contributions to such trust during the  
 4 taxable year to cover the pension liability accruing during  
 5 the year, allowed as a deduction under subsection (a) of  
 6 this section) a reasonable amount transferred or paid into  
 7 such trust during the taxable year in excess of such con-  
 8 tributions, but only if such amount (1) has not theretofore  
 9 been allowable as a deduction, and (2) is apportioned in  
 10 equal parts over a period of ten consecutive years beginning  
 11 with the year in which the transfer or payment is made.  
 12 Any deduction allowable under section 23 (q) of the Reve-  
 13 nue Act of 1928 or the Revenue Act of 1932 which under  
 14 such section was apportioned to any taxable year subsequent  
 15 to the taxable year 1931 shall beginning after December 31,  
 16 1933, shall be allowed as a deduction in the years to which  
 17 so apportioned to the extent allowable under such section  
 18 if it had remained in force with respect to such year.

19 ~~(r) LIMITATION ON STOCK LOSSES.—~~

20 ~~(1) Losses from sales or exchanges of stocks and~~  
 21 ~~bonds (as defined in subsection (b) of this section)~~  
 22 ~~which are not capital assets (as defined in section 101)~~  
 23 ~~shall be allowed only to the extent of the gains from~~  
 24 ~~such sales or exchanges (including gains which may~~

1 he derived by a taxpayer from the retirement of his  
2 own obligations).

3 (2) This subsection shall not apply to a dealer in  
4 securities (as to stocks and bonds acquired for resale  
5 to customers) in respect of transactions in the ordinary  
6 course of his business, nor to a bank or trust company  
7 incorporated under the laws of the United States or  
8 of any State or Territory.

9 (s) ~~SAME—SHORT SALES.~~—For the purposes of this  
10 title, gains or losses (A) from short sales of stocks and bonds,  
11 or (B) attributable to privileges or options to buy or sell  
12 such stocks and bonds, or (C) from sales or exchanges of  
13 such privileges or options, shall be considered as gains or  
14 losses from sales or exchanges of stocks or bonds which  
15 are not capital assets.

16 (t) ~~DEFINITION OF STOCKS AND BONDS.~~—As used  
17 in subsections (r) and (s), the term "stocks and bonds"  
18 means (1) shares of stock in any corporation, or (2) rights  
19 to subscribe for or to receive such shares, or (3) bonds,  
20 debentures, notes, or certificates or other evidences of indebt-  
21 edness, issued by any corporation (other than a government  
22 or political subdivision thereof), with interest coupons or in  
23 registered form, or (4) certificates of profit, or of interest  
24 in property or accumulations, in any investment trust or

1 similar organization holding or dealing in any of the instru-  
 2 ments mentioned or described in this subsection, regardless  
 3 of whether or not such investment trust or similar organi-  
 4 zation constitutes a corporation within the meaning of this  
 5 Act.

6 **SEC. 24. ITEMS NOT DEDUCTIBLE.**

7 (a) **GENERAL RULE.**—In computing net income no  
 8 deduction shall in any case be allowed in respect of—

9 (1) Personal, living, or family expenses;

10 (2) Any amount paid out for new buildings or for  
 11 permanent improvements or betterments made to  
 12 increase the value of any property or estate;

13 (3) Any amount expended in restoring property  
 14 or in making good the exhaustion thereof for which an  
 15 allowance is or has been made; or

16 (4) Premiums paid on any life insurance policy  
 17 covering the life of any officer or employee, or of any  
 18 person financially interested in any trade or business  
 19 carried on by the taxpayer, when the taxpayer is  
 20 directly or indirectly a beneficiary under such policy.  
 21 *policy;*

22 (5) *Any amount otherwise allowable as a deduc-*  
 23 *tion which is allocable to one or more classes of income*  
 24 *(whether or not any amount of income of that class or*  
 25 *classes is received or accrued) wholly exempt to the tax-*  
 26 *payer from the taxes imposed by this title; or*

1           (6) *Loss from sales or exchanges of property,*  
2           *directly or indirectly, (A) between members of a family,*  
3           *or (B) except in the case of distributions in liquidation,*  
4           *between an individual and a corporation in which such*  
5           *individual owns, directly or indirectly, more than 50*  
6           *per centum of the voting stock. For the purpose of this*  
7           *paragraph—(C) an individual shall be considered as*  
8           *owning the stock owned, directly or indirectly, by his*  
9           *family; and (D) the family of an individual shall*  
10           *include only his brothers and sisters (whether by the*  
11           *whole or half blood), spouse, ancestors, and lineal*  
12           *descendants.*

13           **(b) HOLDERS OF LIFE OR TERMINABLE INTEREST.—**

14           Amounts paid under the laws of any State, Territory, Dis-  
15           trict of Columbia, possession of the United States, or foreign  
16           country as income to the holder of a life or terminable inter-  
17           est acquired by gift, bequest, or inheritance shall not be  
18           reduced or diminished by any deduction for shrinkage (by  
19           whatever name called) in the value of such interest due to  
20           the lapse of time, nor by any deduction allowed by this Act  
21           (except the deductions provided for in subsections ~~(k)~~ (l)  
22           and ~~(l)~~ (m) of section 23) for the purpose of computing the  
23           net income of an estate or trust but not allowed under the  
24           laws of such State, Territory, District of Columbia, possession

1 of the United States, or foreign country for the purpose of  
 2 computing the income to which such holder is entitled.

3 (c) TAX WITHHELD ON TAX-FREE COVENANT  
 4 BONDS.—For *non-deductibility of tax withheld on tax-free*  
 5 *covenant bonds, see section 143 (a) (3).*

6 **SEC. 25. CREDITS OF INDIVIDUAL AGAINST NET INCOME.**

7 There shall be allowed for the purpose of the normal  
 8 tax, but not for the surtax, the following credits against the  
 9 net income:

10 (a) DIVIDENDS.—The amount received as dividends—

11 (1) from a domestic corporation which is subject  
 12 to taxation under this title, or

13 (2) from a foreign corporation when it is shown  
 14 to the satisfaction of the Commissioner that more than  
 15 50 per centum of the gross income of such foreign  
 16 corporation for the three-year period ending with the  
 17 close of its taxable year preceding the declaration of  
 18 such dividends (or for such part of such period as the  
 19 corporation has been in existence) was derived from  
 20 sources within the United States as determined under  
 21 the provisions of section 110.

22 The credit allowed by this subsection shall not be  
 23 allowed in respect of dividends received from a corporation  
 24 organized under the China Trade Act, 1922, or from a cor-

1 poration which under section 251 is taxable only on its gross  
 2 income from sources within the United States by reason of  
 3 its receiving a large percentage of its gross income from  
 4 sources within a possession of the United States.

5 (b) INTEREST ON UNITED STATES OBLIGATIONS.—

6 The amount received as interest upon obligations of the  
 7 United States which is included in gross income under  
 8 section 22.

9 (c) PERSONAL EXEMPTION.—In the case of a single  
 10 person, a personal exemption of \$1,000; or in the case of  
 11 the head of a family or a married person living with husband  
 12 or wife, a personal exemption of \$2,500. A husband and  
 13 wife living together shall receive but one personal exemp-  
 14 tion. The amount of such personal exemption shall be  
 15 \$2,500. If such husband and wife make separate returns,  
 16 the personal exemption may be taken by either or divided  
 17 between them.

18 (d) CREDIT FOR DEPENDENTS.—\$400 for each per-  
 19 son (other than husband or wife) dependent upon and  
 20 receiving his chief support from the taxpayer if such  
 21 dependent person is under eighteen years of age or is inca-  
 22 pable of self-support because mentally or physically defective.

23 (e) CHANGE OF STATUS.—If the status of the tax-  
 24 payer, in so far as it affects the personal exemption or credit  
 25 for dependents, changes during the taxable year, the per-



1 sonal exemption and credit shall be apportioned, under rules  
2 and regulations prescribed by the Commissioner with the  
3 approval of the Secretary, in accordance with the number  
4 of months before and after such change. For the purpose  
5 of such apportionment a fractional part of a month shall be  
6 disregarded unless it amounts to more than half a month in  
7 which case it shall be considered as a month.

8 (a) *CREDITS FOR NORMAL TAX ONLY.*—There shall  
9 be allowed for the purpose of the normal tax, but not for  
10 the surtax, the following credits against the net income:

11 (1) *DIVIDENDS.*—The amount received as divi-  
12 dends from a domestic corporation which is subject  
13 to taxation under this title. The credit allowed by this  
14 paragraph shall not be allowed in respect of dividends  
15 received from a corporation organized under the China  
16 Trade Act, 1922, or from a corporation which under  
17 section 251 is taxable only on its gross income from  
18 sources within the United States by reason of its re-  
19 ceiving a large percentage of its gross income from  
20 sources within a possession of the United States.

21 (2) *INTEREST ON UNITED STATES OBLIGA-*  
22 *TIONS.*—The amount received as interest upon ob-  
23 ligations of the United States which is included in  
24 gross income under section 22.

1           (3) *INTEREST ON OBLIGATIONS OF INSTRU-*  
 2           *MENTALITIES OF THE UNITED STATES.*—*The amount*  
 3           *received as interest on obligations of a corporation*  
 4           *organized under Act of Congress, if (A) such corpora-*  
 5           *tion is an instrumentality of the United States; and*  
 6           *(B) such interest is included in gross income under*  
 7           *section 22; and (C) under the Act authorizing the*  
 8           *issue thereof, as amended and supplemented, such*  
 9           *interest is exempt from normal tax.*

10           (4) *EARNED INCOME CREDIT.*—*10 per centum*  
 11           *of the amount of the earned net income, but not in*  
 12           *excess of 10 per centum of the amount of the net income.*

13           (5) *EARNED INCOME DEFINITIONS.*—*For the*  
 14           *purposes of this section—*

15           (A) “*Earned income*” means wages, sal-  
 16           aries, professional fees, and other amounts re-  
 17           ceived as compensation for personal services  
 18           actually rendered, but does not include any amount  
 19           not included in gross income, nor that part of the  
 20           compensation derived by the taxpayer for personal  
 21           services rendered by him to a corporation which  
 22           represents a distribution of earnings or profits  
 23           rather than a reasonable allowance as compen-  
 24           sation for the personal services actually rendered.  
 25           In the case of a taxpayer engaged in a trade

1 or business in which both personal services and  
2 capital are material income producing factors,  
3 a reasonable allowance as compensation for the  
4 personal services actually rendered by the tax-  
5 payer, not in excess of 20 per centum of his share  
6 of the net profits of such trade or business, shall  
7 be considered as earned income.

8 (B) "Earned income deductions" means  
9 such deductions as are allowed by section 23 for  
10 the purpose of computing net income, and are  
11 properly allocable to or chargeable against earned  
12 income.

13 (C) "Earned net income" means the ex-  
14 cess of the amount of the earned income over the  
15 sum of the earned income deductions. If the  
16 taxpayer's net income is not more than \$3,000,  
17 his entire net income shall be considered to be  
18 earned net income, and if his net income is more  
19 than \$3,000, his earned net income shall not be  
20 considered to be less than \$3,000. In no case  
21 shall the earned net income be considered to be  
22 more than \$8,000.

23 (b) CREDITS FOR BOTH NORMAL TAX AND SUR-  
24 TAX.—There shall be allowed for the purposes of the normal  
25 tax and the surtax the following credits against net income:

1           (1) *PERSONAL EXEMPTION.*—In the case of a  
2           single person, a personal exemption of \$1,000; or in  
3           the case of the head of a family or a married person  
4           living with husband or wife, a personal exemption of  
5           \$2,500. A husband and wife living together shall  
6           receive but one personal exemption. The amount of  
7           such personal exemption shall be \$2,500. If such  
8           husband and wife make separate returns, the personal  
9           exemption may be taken by either or divided between  
10          them.

11          (2) *CREDIT FOR DEPENDENTS.*—\$400 for each  
12          person (other than husband or wife) dependent upon  
13          and receiving his chief support from the taxpayer if  
14          such dependent person is under eighteen years of age  
15          or is incapable of self-support because mentally or  
16          physically defective.

17          (3) *CHANGE OF STATUS.*—If the status of the  
18          taxpayer, in so far as it affects the personal exemption  
19          or credit for dependents, changes during the taxable  
20          year, the personal exemption and credit shall be ap-  
21          portioned, under rules and regulations prescribed by  
22          the Commissioner with the approval of the Secretary,  
23          in accordance with the number of months before and  
24          after such change. For the purpose of such apportion-  
25          ment a fractional part of a month shall be disregarded

1        *unless it amounts to more than half a month in which*  
 2        *case it shall be considered as a month.*

3        **SEC. 26. CREDITS OF CORPORATION AGAINST NET INCOME.**

4        For the purpose only of the tax imposed by section 13  
 5        there shall be allowed as a credit against net income the  
 6        amount received as interest upon obligations of the United  
 7        States which is included in gross income under section 22.

8                                    **Part III—Credits Against Tax**

9        **SEC. 31. TAXES OF FOREIGN COUNTRIES AND POSSES-**  
 10        **SIONS OF UNITED STATES.**

11        The amount of income, war-profits, and excess-profits  
 12        taxes imposed by foreign countries or possessions of the  
 13        United States shall be allowed as a credit against the tax,  
 14        to the extent provided in section 131.

15        **SEC. 32. TAXES WITHHELD AT SOURCE.**

16        The amount of tax withheld at the source under  
 17        section 143 shall be allowed as a credit against the tax.

18        **SEC. 33. ERRONEOUS PAYMENTS CREDIT FOR OVERPAY-**  
 19        **MENTS.**

20        (a) **CREDIT FOR OVERPAYMENTS.**—For credit against  
 21        the tax of overpayments of taxes imposed by this title for  
 22        other taxable years, see section 322.

23        (b) **FISCAL YEAR ENDING IN 1932.**—For credit  
 24        against the tax of amounts of tax paid for a fiscal year  
 25        beginning in 1931 and ending in 1932, see section 132.

**1 Part IV—Accounting Periods and Methods of Accounting****2 SEC. 41. GENERAL RULE.**

**3** The net income shall be computed upon the basis of  
**4** the taxpayer's annual accounting period (fiscal year or  
**5** calendar year, as the case may be) in accordance with the  
**6** method of accounting regularly employed in keeping the  
**7** books of such taxpayer; but if no such method of accounting  
**8** has been so employed, or if the method employed does not  
**9** clearly reflect the income, the computation shall be made  
**10** in accordance with such method as in the opinion of the  
**11** Commissioner does clearly reflect the income. If the tax-  
**12** payer's annual accounting period is other than a fiscal year  
**13** as defined in section 48 or if the taxpayer has no annual  
**14** accounting period or does not keep books, the net income  
**15** shall be computed on the basis of the calendar year. (For  
**16** use of inventories, see section 22 (c).)

**17 SEC. 42. PERIOD IN WHICH ITEMS OF GROSS INCOME**  
**18 INCLUDED.**

**19** The amount of all items of gross income shall be in-  
**20** cluded in the gross income for the taxable year in which  
**21** received by the taxpayer, unless, under methods of account-  
**22** ing permitted under section 41, any such amounts are to be  
**23** properly accounted for as of a different period. *In the case*  
**24** *of the death of a taxpayer there shall be included in computing*  
**25** *net income for the taxable period in which falls the date of*

1 *his death, amounts accrued up to the date of his death if not*  
 2 *otherwise properly includible in respect of such period or a*  
 3 *prior period.*

4 **SEC. 43. PERIOD FOR WHICH DEDUCTIONS AND CREDITS**  
 5 **TAKEN.**

6 The deductions and credits provided for in this title shall  
 7 be taken for the taxable year in which "paid or accrued" or  
 8 "paid or incurred", dependent upon the method of account-  
 9 ing upon the basis of which the net income is computed,  
 10 unless in order to clearly reflect the income the deductions  
 11 or credits should be taken as of a different period. *In the*  
 12 *case of the death of a taxpayer there shall be allowed as*  
 13 *deductions in computing net income for the taxable period in*  
 14 *which falls the date of his death, amounts accrued up to the*  
 15 *date of his death if not otherwise properly allowable in*  
 16 *respect of such period or a prior period.*

17 **SEC. 44. INSTALLMENT BASIS.**

18 (a) **DEALERS IN PERSONAL PROPERTY.**—Under regu-  
 19 lations prescribed by the Commissioner with the approval  
 20 of the Secretary, a person who regularly sells or otherwise  
 21 disposes of personal property on the installment plan may  
 22 return as income therefrom in any taxable year that propor-  
 23 tion of the installment payments actually received in that  
 24 year which the gross profit realized or to be realized when  
 25 payment is completed, bears to the total contract price.

1           **(b) SALES OF REALTY AND CASUAL SALES OF PER-**  
2 **SONALTY.**—In the case (1) of a casual sale or other casual  
3 disposition of personal property (other than property of a  
4 kind which would properly be included in the inventory of  
5 the taxpayer if on hand at the close of the taxable year),  
6 for a price exceeding \$1,000, or (2) of a sale or other dis-  
7 position of real property, if in either case the initial pay-  
8 ments do not exceed 40 per centum of the selling price  
9 30 per centum of the selling price (or, in case the sale or  
10 other disposition was in a taxable year beginning prior to  
11 January 1, 1934, the percentage of the selling price pre-  
12 scribed in the law applicable to such year), the income may,  
13 under regulations prescribed by the Commissioner with the  
14 approval of the Secretary, be returned on the basis and in  
15 the manner above prescribed in this section. As used in  
16 this section the term "initial payments" means the pay-  
17 ments received in cash or property other than evidences of  
18 indebtedness of the purchaser during the taxable period in  
19 which the sale or other disposition is made.

20           **(c) CHANGE FROM ACCRUAL TO INSTALLMENT**  
21  **BASIS.**—If a taxpayer entitled to the benefits of subsection  
22 (a) elects for any taxable year to report his net income on  
23 the installment basis, then in computing his income for the  
24 year of change or any subsequent year, amounts actually  
25 received during any such year on account of sales or other



1 dispositions of property made in any prior year shall not be  
2 excluded.

3 (d) GAIN OR LOSS UPON DISPOSITION OF INSTALL-  
4 MENT OBLIGATIONS.—If an installment obligation is satis-  
5 fied at other than its face value or distributed, transmitted,  
6 sold, or otherwise disposed of, gain or loss shall result to the  
7 extent of the difference between the basis of the obligation  
8 and (1) in the case of satisfaction at other than face value  
9 or a sale or exchange—the amount realized, or (2) in case  
10 of a distribution, transmission, or disposition otherwise than  
11 by sale or exchange—the fair market value of the obligation  
12 at the time of such distribution, transmission, or disposition.  
13 The basis of the obligation shall be the excess of the face  
14 value of the obligation over an amount equal to the income  
15 which would be returnable were the obligation satisfied in  
16 full. This subsection shall not apply to the transmission at  
17 death of installment obligations if there is filed with the  
18 Commissioner, at such time as he may by regulation pre-  
19 scribe, a bond in such amount and with such sureties as he  
20 may deem necessary, conditioned upon the return as income,  
21 by the person receiving any payment on such obligations, of  
22 the same proportion of such payment as would be returnable  
23 as income by the decedent if he had lived and had received  
24 such payment.

**1 SEC. 45. ALLOCATION OF INCOME AND DEDUCTIONS.**

2 In any case of two or more ~~trades or organizations,~~  
3 *trades, or businesses* (whether or not incorporated, whether  
4 or not organized in the United States, and whether or not  
5 affiliated) owned or controlled directly or indirectly by the  
6 same interests, the Commissioner is authorized to distribute,  
7 apportion, or allocate gross income or deductions between or  
8 among such ~~trades or organizations, trades, or businesses,~~ if  
9 he determines that such distribution, apportionment, or allo-  
10 cation is necessary in order to prevent evasion of taxes or  
11 clearly to reflect the income of any of such ~~trades or organi-~~  
12 *zations, trades, or businesses.*

**13 SEC. 46. CHANGE OF ACCOUNTING PERIOD.**

14 If a taxpayer changes his accounting period from fiscal  
15 year to calendar year, from calendar year to fiscal year, or  
16 from one fiscal year to another, the net income shall, with the  
17 approval of the Commissioner, be computed on the basis of  
18 such new accounting period, subject to the provisions of  
19 section 47.

**20 SEC. 47. RETURNS FOR A PERIOD OF LESS THAN TWELVE  
21 MONTHS.**

22 (a) RETURNS FOR SHORT PERIOD RESULTING FROM  
23 CHANGE OF ACCOUNTING PERIOD.—If a taxpayer, with  
24 the approval of the Commissioner, changes the basis of com-  
25 puting net income from fiscal year to calendar year a separate

1 return shall be made for the period between the close of the  
2 last fiscal year for which return was made and the following  
3 December 31. If the change is from calendar year to  
4 fiscal year, a separate return shall be made for the period  
5 between the close of the last calendar year for which return  
6 was made and the date designated as the close of the fiscal  
7 year. If the change is from one fiscal year to another fiscal  
8 year a separate return shall be made for the period between  
9 the close of the former fiscal year and the date designated as  
10 the close of the new fiscal year.

11 (b) INCOME COMPUTED ON BASIS OF SHORT  
12 PERIOD.—Where a separate return is made under sub-  
13 section (a) on account of a change in the accounting period,  
14 and in all other cases where a separate return is required  
15 or permitted, by regulations prescribed by the Commis-  
16 sioner with the approval of the Secretary, to be made for  
17 a fractional part of a year, then the income shall be com-  
18 puted on the basis of the period for which separate return  
19 is made.

20 (c) INCOME PLACED ON ANNUAL BASIS.—If a  
21 separate return is made under subsection (a) on account  
22 of a change in the accounting period, the net income, com-  
23 puted on the basis of the period for which separate return  
24 is made, shall be placed on an annual basis by multiplying  
25 the amount thereof by twelve and dividing by the number

1 of months included in the period for which the separate  
2 return is made. The tax shall be such part of the tax  
3 computed on such annual basis as the number of months  
4 in such period is of twelve months.

5 (d) ~~CAPITAL NET GAINS AND LOSSES—EARNED~~  
6 ~~INCOME.~~—The Commissioner with the approval of the  
7 Secretary shall by regulations prescribe the method of apply-  
8 ing the provisions of subsections (b) and (c) (relating to  
9 computing income on the basis of a short period, and plac-  
10 ing such income on an annual basis) to cases where the  
11 taxpayer makes a separate return under subsection (a) on  
12 account of a change in the accounting period, and it appears  
13 that for the period for which the return is so made he has  
14 ~~derived a capital net gain, or sustained a capital net loss,~~  
15 ~~or~~ received earned income.

16 (e) ~~REDUCTION OF CREDITS AGAINST NET IN-~~  
17 ~~COME.~~—In the case of a return made for a fractional part  
18 of a year, except a return made under subsection (a), on  
19 account of a change in the accounting period, the personal  
20 exemption and credit for dependents shall be reduced respec-  
21 tively to amounts which bear the same ratio to the full  
22 credits provided as the number of months in the period for  
23 which return is made bears to twelve months.

24 (f) ~~CLOSING OF TAXABLE YEAR IN CASE OF JEOP-~~  
25 ~~ARDY.~~—For closing of taxable year in case of jeopardy, see  
26 section 146.

1 **SEC. 48. DEFINITIONS.**

2 When used in this title—

3 (a) **TAXABLE YEAR.**—“Taxable year” means the cal  
4 endar year, or the fiscal year ending during such calendar year,  
5 upon the basis of which the net income is computed under  
6 this Part. “Taxable year” includes, in the case of a return  
7 made for a fractional part of a year under the provisions of  
8 this title or under regulations prescribed by the Commissioner  
9 with the approval of the Secretary, the period for which such  
10 return is made. ~~The first taxable year, to be called the~~  
11 ~~taxable year 1932, shall be the calendar year 1932 or any~~  
12 ~~fiscal year ending during the calendar year 1932.~~

13 (b) **FISCAL YEAR.**—“Fiscal year” means an  
14 accounting period of twelve months ending on the last day  
15 of any month other than December.

16 (c) **PAID, INCURRED, ACCRUED.**—The terms “paid  
17 or incurred” and “paid or accrued” shall be construed  
18 according to the method of accounting upon the basis of  
19 which the net income is computed under this Part.

20 **Part V—Returns and Payment of Tax**21 **SEC. 51. INDIVIDUAL RETURNS.**

22 (a) **REQUIREMENT.**—The following individuals shall  
23 each make under oath a return stating specifically the items  
24 of his gross income and the deductions and credits allowed  
25 under this title—

1           (1) Every individual having a net income for  
2           the taxable year of \$1,000 or over, if single, or if  
3           married and not living with husband or wife;

4           (2) Every individual having a net income for  
5           the taxable year of \$2,500 or over, if married and  
6           living with husband or wife; and

7           (3) Every individual having a gross income for  
8           the taxable year of \$5,000 or over, regardless of the  
9           amount of his net income.

10          (b) HUSBAND AND WIFE.—If a husband and wife  
11          living together have an aggregate net income for the taxable  
12          year of \$2,500 or over, or an aggregate gross income for  
13          such year of \$5,000 or over—

14                 (1) Each shall make such a return, or

15                 (2) The income of each shall be included in a  
16          single joint return, in which case the tax shall be com-  
17          puted on the aggregate income.

18          (c) PERSONS UNDER DISABILITY.—If the taxpayer  
19          is unable to make his own return, the return shall be made  
20          by a duly authorized agent or by the guardian or other  
21          person charged with the care of the person or property of  
22          such taxpayer.

23          (d) FIDUCIARIES.—For returns to be made by fidu-  
24          ciaries, see section 142.

**1 SEC. 52. CORPORATION RETURNS.**

2 (a) REQUIREMENT.—Every corporation subject to  
3 taxation under this title shall make a return, stating specifi-  
4 cally the items of its gross income and the deductions and  
5 credits allowed by this title. The return shall be sworn to  
6 by the president, vice president, or other principal officer  
7 and by the treasurer or assistant treasurer. In cases where  
8 receivers, trustees in bankruptcy, or assignees are operating  
9 the property or business of corporations, such receivers,  
10 trustees, or assignees shall make returns for such corporations  
11 in the same manner and form as corporations are required  
12 to make returns. Any tax due on the basis of such returns  
13 made by receivers, trustees, or assignees shall be collected in  
14 the same manner as if collected from the corporations of  
15 whose business or property they have custody and control.

16 (b) CONSOLIDATED RETURNS.—For provision as to  
17 consolidated returns of affiliated corporations, see section  
18 141.

**19 SEC. 53. TIME AND PLACE FOR FILING RETURNS.**

20 (a) TIME FOR FILING.—

21 (1) GENERAL RULE.—Returns made on the basis  
22 of the calendar year shall be made on or before the 15th  
23 day of March following the close of the calendar year.  
24 Returns made on the basis of a fiscal year shall be

1       made on or before the 15th day of the third month  
2       following the close of the fiscal year.

3               (2) **EXTENSION OF TIME.**—The Commissioner  
4       may grant a reasonable extension of time for filing  
5       returns, under such rules and regulations as he shall  
6       prescribe with the approval of the Secretary. Except  
7       in the case of taxpayers who are abroad, no such  
8       extension shall be for more than six months.

9       (b) **TO WHOM RETURN MADE.**—

10              (1) **INDIVIDUALS.**—Returns (other than cor-  
11       poration returns) shall be made to the collector for  
12       the district in which is located the legal residence or  
13       principal place of business of the person making the  
14       return, or, if he has no legal residence or principal place  
15       of business in the United States, then to the collector at  
16       Baltimore, Maryland.

17              (2) **CORPORATIONS.**—Returns of corporations  
18       shall be made to the collector of the district in which is  
19       located the principal place of business or principal office  
20       or agency of the corporation, or, if it has no principal  
21       place of business or principal office or agency in the  
22       United States, then to the collector at Baltimore,  
23       Maryland.



**1 SEC. 54. RECORDS AND SPECIAL RETURNS.**

**2 (a) BY TAXPAYER.**—Every person liable to any tax  
**3** imposed by this title or for the collection thereof, shall keep  
**4** such records, render under oath such statements, make such  
**5** returns, and comply with such rules and regulations, as the  
**6** Commissioner, with the approval of the Secretary, may from  
**7** time to time prescribe.

**8 (b) TO DETERMINE LIABILITY TO TAX.**—Whenever  
**9** in the judgment of the Commissioner necessary he may  
**10** require any person, by notice served upon him, to make a  
**11** return, render under oath such statements, or keep such  
**12** records, as the Commissioner deems sufficient to show  
**13** whether or not such person is liable to tax under this title.

**14 (c) INFORMATION AT THE SOURCE.**—For require-  
**15** ment of statements and returns by one person to assist in  
**16** determining the tax liability of another person, see sections  
**17** 147 to 150.

**18 SEC. 55. PUBLICITY OF RETURNS.**

**19** Returns made under this title shall be open to inspection  
**20** in the same manner, to the same extent, and subject to the  
**21** same provisions of law, including penalties, as returns made  
**22** under Title II of the Revenue Act of 1926; and all returns  
**23** made under this Act after ~~June 16, 1933,~~ shall constitute  
**24** public records and shall be open to public examination and

1 inspection to such extent as shall be authorized in rules and  
2 regulations promulgated by the President.

3 **SEC. 56. PAYMENT OF TAX.**

4 (a) **TIME OF PAYMENT.**—The total amount of tax  
5 imposed by this title shall be paid on the fifteenth day of  
6 March following the close of the calendar year; or, if the  
7 return should be made on the basis of a fiscal year, then on  
8 the fifteenth day of the third month following the close of  
9 the fiscal year.

10 (b) **INSTALLMENT PAYMENTS.**—The taxpayer may  
11 elect to pay the tax in four equal installments, in which case  
12 the first installment shall be paid on the date prescribed for  
13 the payment of the tax by the taxpayer, the second install-  
14 ment shall be paid on the fifteenth day of the third month,  
15 the third installment on the fifteenth day of the sixth month,  
16 and the fourth installment on the fifteenth day of the ninth  
17 month, after such date. If any installment is not paid on or  
18 before the date fixed for its payment, the whole amount of  
19 the tax unpaid shall be paid upon notice and demand from  
20 the collector.

21 (c) **EXTENSION OF TIME FOR PAYMENT.**—At the  
22 request of the taxpayer, the Commissioner may extend the  
23 time for payment of the amount determined as the tax by  
24 the taxpayer, or any installment thereof, for a period not to

1 exceed six months from the date prescribed for the payment  
2 of the tax or an installment thereof. In such case the amount  
3 in respect of which the extension is granted shall be paid on  
4 or before the date of the expiration of the period of the  
5 extension.

6 (d) VOLUNTARY ADVANCE PAYMENT.—A tax im-  
7 posed by this title, or any installment thereof, may be paid,  
8 at the election of the taxpayer, prior to the date prescribed  
9 for its payment.

10 (e) ADVANCE PAYMENT IN CASE OF JEOPARDY.—  
11 For advance payment in case of jeopardy, see section 146.

12 (f) TAX WITHHELD AT SOURCE.—For requirement  
13 of withholding tax at the source in the case of nonresident  
14 aliens and foreign corporations, and in the case of so-called  
15 “tax-free covenant bonds”, see sections 143 and 144.

16 (g) FRACTIONAL PARTS OF CENT.—In the payment  
17 of any tax under this title a fractional part of a cent shall  
18 be disregarded unless it amounts to one-half cent or more,  
19 in which case it shall be increased to 1 cent.

20 (h) RECEIPTS.—Every collector to whom any pay-  
21 ment of any income tax is made shall upon request give to  
22 the person making such payment a full written or printed  
23 receipt *therefor*, stating the amount paid and the particular  
24 account for which such payment was made; and whenever

1 any debtor pays taxes on account of payments made or to be  
2 made by him to separate creditors the collector shall, if  
3 requested by such debtor, give a separate receipt for the tax  
4 paid on account of each creditor in such form that the debtor  
5 can conveniently produce such receipts separately to his sev-  
6 eral creditors in satisfaction of their respective demands up to  
7 the amounts stated in the receipts; and such receipt shall be  
8 sufficient evidence in favor of such debtor to justify him in  
9 withholding from his next payment to his creditor the amount  
10 therein stated; but the creditor may, upon giving to his  
11 debtor a full written receipt acknowledging the payment to  
12 him of any sum actually paid and accepting the amount of  
13 tax paid as aforesaid (specifying the same) as a further  
14 satisfaction of the debt to that amount, require the surrender  
15 to him of such collector's receipt.

16 **SEC. 57. EXAMINATION OF RETURN AND DETERMINA-**  
17 **TION OF TAX.**

18       As soon as practicable after the return is filed the Com-  
19 missioner shall examine it and shall determine the correct  
20 amount of the tax.

21 **SEC. 58. ADDITIONS TO TAX AND PENALTIES.**

22       (a) For additions to the tax in case of negligence or  
23 fraud in the nonpayment of tax or failure to file return  
24 therefor, see Supplement M.

1           (b) For criminal penalties for nonpayment of tax or  
2 failure to file return therefor, see section 145.

3 **SEC. 59. ADMINISTRATIVE PROCEEDINGS.**

4           For administrative proceedings in respect of the non-  
5 payment or overpayment of a tax imposed by this title, see  
6 as follows:

7           (a) Supplement L, relating to assessment and collec-  
8 tion of deficiencies.

9           (b) Supplement M, relating to interest and additions  
10 to tax.

11           (c) Supplement N, relating to claims against trans-  
12 ferees and fiduciaries.

13           (d) Supplement O, relating to overpayments.

14                   **Part VI—Miscellaneous Provisions**

15 **SEC. 61. LAWS MADE APPLICABLE.**

16           All administrative, special, or stamp provisions of law,  
17 including the law relating to the assessment of taxes, so far  
18 as applicable, are hereby extended to and made a part of  
19 this title.

20 **SEC. 62. RULES AND REGULATIONS.**

21           The Commissioner, with the approval of the Secretary,  
22 shall prescribe and publish all needful rules and regulations  
23 for the enforcement of this title.

1 **SEC. 63. TAXES IN LIEU OF TAXES UNDER 1928 1932 ACT.**

2 The taxes imposed by this title shall be in lieu of the  
3 corresponding taxes imposed by the sections of the Revenue  
4 Act of 1928 bearing the same numbers *Revenue Act of 1932.*

5 **SEC. 64. SHORT TITLE.**

6 This title may be cited as the "Income Tax Act of  
7 1932 1934."

8 **SEC. 65. EFFECTIVE DATE OF TITLE.**

9 This title shall take effect as of January 1, 1932, except  
10 that sections 145 and 150, and this section, shall take effect  
11 on the enactment of this Act.

12 **SUBTITLE C—SUPPLEMENTAL PROVISIONS**

13 **Supplement A—Rates of Tax**

14 [Supplementary to Subtitle B, Part I]

15 **SEC. 101. CAPITAL NET GAINS AND LOSSES.**

16 ~~(a)~~ **TAX IN CASE OF CAPITAL NET GAIN.**—In the  
17 case of any taxpayer, other than a corporation, who for any  
18 taxable year derives a capital net gain (as hereinafter  
19 defined in this section), there shall, at the election of the  
20 taxpayer, be levied, collected, and paid, in lieu of all other  
21 taxes imposed by this title, a tax determined as follows:  
22 A partial tax shall first be computed upon the basis of the  
23 ordinary net income at the rates and in the manner as if this

1 section had not been enacted and the total tax shall be this  
2 amount plus 12½ per centum of the capital net gain.

3 (b) **TAX IN CASE OF CAPITAL NET LOSS.**—In the  
4 case of any taxpayer, other than a corporation, who for any  
5 taxable year sustains a capital net loss (as hereinafter defined  
6 in this section), there shall be levied, collected, and paid, in  
7 lieu of all other taxes imposed by this title, a tax determined  
8 as follows: A partial tax shall first be computed upon the  
9 basis of the ordinary net income at the rates and in the  
10 manner as if this section had not been enacted, and the total  
11 tax shall be this amount minus 12½ per centum of the capital  
12 net loss; but in no case shall the tax of a taxpayer who has  
13 sustained a capital net loss be less than the tax computed  
14 without regard to the provisions of this section.

15 (c) **DEFINITIONS.**—For the purposes of this title—

16 (1) "Capital gain" means taxable gain from the  
17 sale or exchange of capital assets consummated after  
18 December 31, 1921.

19 (2) "Capital loss" means deductible loss result-  
20 ing from the sale or exchange of capital assets.

21 (3) "Capital deductions" means such deductions  
22 as are allowed by section 23 for the purpose of com-  
23 puting net income, and are properly allocable to or  
24 chargeable against capital assets sold or exchanged  
25 during the taxable year.

1           (4) "Ordinary deductions" means the deductions  
2 allowed by section 23 other than capital losses and  
3 capital deductions.

4           (5) "Capital net gain" means the excess of the  
5 total amount of capital gain over the sum of (A) the  
6 capital deductions and capital losses, plus (B) the  
7 amount, if any, by which the ordinary deductions  
8 exceed the gross income computed without including  
9 capital gains.

10          (6) "Capital net loss" means the excess of the  
11 sum of the capital losses plus the capital deductions  
12 over the total amount of capital gain.

13          (7) "Ordinary net income" means the net  
14 income, computed in accordance with the provisions  
15 of this title, after excluding all items of capital gain,  
16 capital loss, and capital deductions.

17          (8) "Capital assets" means property held by  
18 the taxpayer for more than two years (whether or not  
19 connected with his trade or business), but does not  
20 include stock in trade of the taxpayer or other property  
21 of a kind which would properly be included in the  
22 inventory of the taxpayer if on hand at the close of  
23 the taxable year, or property held by the taxpayer  
24 primarily for sale in the course of his trade or business.  
25 For the purposes of this definition—



1           (A) In determining the period for which the  
2 taxpayer has held property received on an ex-  
3 change there shall be included the period for which  
4 he held the property exchanged, if under the pro-  
5 visions of section 112, the property received has,  
6 for the purpose of determining gain or loss from a  
7 sale or exchange, the same basis in whole or in  
8 part in his hands as the property exchanged.

9           (B) In determining the period for which the  
10 taxpayer has held property however acquired there  
11 shall be included the period for which such prop-  
12 erty was held by any other person, if under the  
13 provisions of section 112, such property has, for  
14 the purpose of determining gain or loss from a sale  
15 or exchange, the same basis in whole or in part  
16 in his hands as it would have in the hands of such  
17 other person.

18           (C) In determining the period for which the  
19 taxpayer has held stock or securities received upon  
20 a distribution where no gain is recognized to  
21 the distributee under ~~the provisions of section 112~~  
22 (g) of this Act or the Revenue Act of 1928, there  
23 shall be included the period for which he held the  
24 stock or securities in the distributing corporation

1 prior to the receipt of the stock or securities upon  
2 such distribution:

3 (D) In determining the period for which the  
4 taxpayer has held stock or securities the acquisition  
5 of which (or the contract or option to acquire  
6 which) resulted in the nondeductibility (under  
7 section 118 of this Act or the Revenue Act of  
8 1928, relating to wash sales) of the loss from the  
9 sale or other disposition of substantially identical  
10 stock or securities, there shall be included the  
11 period for which he held the stock or securities the  
12 loss from the sale or other disposition of which was  
13 not deductible.

14 (d) **COLLECTION AND PAYMENT OF TAX.**—The total  
15 tax determined under subsection (a) or (b) shall be col-  
16 lected and paid in the same manner, at the same time, and  
17 subject to the same provisions of law, including penalties, as  
18 other taxes under this title.

19 **SEC. 102, SALE OF MINES AND OIL OR GAS WELLS.**

20 (a) In the case of a bona fide sale of mines, oil or gas  
21 wells, or any interest therein, where the principal value of  
22 the property has been demonstrated by prospecting or  
23 exploration and discovery work done by the taxpayer, the  
24 portion of the tax imposed by section 19 of this title attrib-

1. rate to such sale shall not exceed 16 per centum of the  
 2. selling price of such property or interest.

3. (b) For limitation to 12½ per centum rate of tax,  
 4. see section 101.

5. SEC. 101. EXEMPTIONS FROM TAX ON CORPORATIONS.

6. The following organizations shall be exempt from  
 7. taxation under this title—

8. (1) Labor, agricultural, or horticultural organi-  
 9. zations;

10. (2) Mutual savings banks not having a capital  
 11. stock represented by shares;

12. (3) Fraternal beneficiary societies, orders, or  
 13. associations, (A) operating under the lodge system or  
 14. for the exclusive benefit of the members of a fraternity  
 15. itself operating under the lodge system; and (B) pro-  
 16. viding for the payment of life, sick, accident, or other  
 17. benefits to the members of such society, order, or  
 18. association or their dependents;

19. (4) Domestic building and loan associations sub-  
 20. stantially all the business of which is confined to mak-  
 21. ing loans to members; and cooperative banks without  
 22. capital stock organized and operated for mutual  
 23. purposes and without profit;

24. (5) Cemetery companies owned and operated  
 25. exclusively for the benefit of their members or which

1 are not operated for profit; and any corporation char-  
2 tered solely for burial purposes as a cemetery corpora-  
3 tion and not permitted by its charter to engage in any  
4 business not necessarily incident to that purpose, no  
5 part of the net earnings of which inures to the benefit  
6 of any private shareholder or individual;

7 (6) Corporations, and any community chest,  
8 fund, or foundation, organized and operated exclusively  
9 for religious, charitable, scientific, literary, or educa-  
10 tional purposes, or for the prevention of cruelty to  
11 children or animals, no part of the net earnings of  
12 which inures to the benefit of any private shareholder  
13 or individual;

14 (7) Business leagues, chambers of commerce,  
15 real-estate boards, or boards of trade, not organized for  
16 profit and no part of the net earnings of which inures  
17 to the benefit of any private shareholder or individual;

18 (8) Civic leagues or organizations not organized  
19 for profit but operated exclusively for the promotion of  
20 social welfare, or local associations of employees, the  
21 membership of which is limited to the employees of a  
22 designated person or persons in a particular munici-  
23 pality, and the net earnings of which are devoted  
24 exclusively to charitable, educational, or recreational  
25 purposes;

1           (9) Clubs organized and operated exclusively for  
2 pleasure, recreation, and other nonprofitable purposes,  
3 no part of the net earnings of which inures to the  
4 benefit of any private shareholder;

5           (10) Benevolent life insurance associations of a  
6 purely local character, mutual ditch or irrigation com-  
7 panies, mutual or cooperative telephone companies, or  
8 like organizations; but only if 85 per centum or more of  
9 the income consists of amounts collected from members  
10 for the sole purpose of meeting losses and expenses;

11           (11) Farmers' or other mutual hail, cyclone,  
12 casualty, or fire insurance companies or associations  
13 (including interinsurers and reciprocal underwriters)  
14 the income of which is used or held for the purpose of  
15 paying losses or expenses;

16           (12) Farmers', fruit growers', or like associa-  
17 tions organized and operated on a cooperative basis  
18 (a) for the purpose of marketing the products of mem-  
19 bers or other producers, and turning back to them the  
20 proceeds of sales, less the necessary marketing expenses,  
21 on the basis of either the quantity or the value of the  
22 products furnished by them, or (b) for the purpose of  
23 purchasing supplies and equipment for the use of mem-  
24 bers or other persons, and turning over such supplies

1 and equipment to them at actual cost, plus necessary  
2 expenses. Exemption shall not be denied any such  
3 association because it has capital stock, if the dividend  
4 rate of such stock is fixed at not to exceed the legal rate  
5 of interest in the State of incorporation or 8 per centum  
6 per annum, whichever is greater, on the value of the  
7 consideration for which the stock was issued, and if  
8 substantially all such stock (other than nonvoting  
9 preferred stock, the owners of which are not entitled  
10 or permitted to participate, directly or indirectly, in  
11 the profits of the association, upon dissolution or other-  
12 wise, beyond the fixed dividends) is owned by pro-  
13 ducers who market their products or purchase their  
14 supplies and equipment through the association; nor  
15 shall exemption be denied any such association because  
16 there is accumulated and maintained by it a reserve  
17 required by State law or a reasonable reserve for any  
18 necessary purpose. Such an association may market  
19 the products of nonmembers in an amount the value  
20 of which does not exceed the value of the products  
21 marketed for members, and may purchase supplies and  
22 equipment for nonmembers in an amount the value of  
23 which does not exceed the value of the supplies and  
24 equipment purchased for members, provided the value  
25 of the purchases made for persons who are neither

1 members nor producers does not exceed 15 per centum  
2 of the value of all its purchases;

3 (13) Corporations organized by an association  
4 exempt under the provisions of paragraph (12), or  
5 members thereof, for the purpose of financing the  
6 ordinary crop operations of such members or other pro-  
7 ducers, and operated in conjunction with such associa-  
8 tion. Exemption shall not be denied any such corpora-  
9 tion because it has capital stock, if the dividend rate  
10 of such stock is fixed at not to exceed the legal rate  
11 of interest in the State of incorporation or 8 per centum  
12 per annum, whichever is greater, on the value of the  
13 consideration for which the stock was issued, and if  
14 substantially all such stock (other than nonvoting pre-  
15 ferred stock, the owners of which are not entitled or  
16 permitted to participate, directly or indirectly, in the  
17 profits of the corporation, upon dissolution or other-  
18 wise, beyond the fixed dividends) is owned by such  
19 association, or members thereof; nor shall exemption  
20 be denied any such corporation because there is accu-  
21 mulated and maintained by it a reserve required by  
22 State law or a reasonable reserve for any necessary  
23 purpose;

24 (14) Corporations organized for the exclusive pur-  
25 pose of holding title to property, collecting income

1       therefrom, and turning over the entire amount thereof,  
2       less expenses, to an organization which itself is exempt  
3       from the tax imposed by this title;

4           ~~(15) Federal land banks, national farm loan asso-~~  
5       ~~ciations, and Federal intermediate credit banks, as pro-~~  
6       ~~vided in the Federal Farm Loan Act, as amended;~~

7           (15) *Corporations organized under Act of Con-*  
8       *gress, if such corporations are instrumentalities of the*  
9       *United States and if, under such Act, as amended and*  
10      *supplemented, such corporations are exempt from*  
11      *Federal income taxes;*

12           (16) Voluntary employees' beneficiary associa-  
13      tions providing for the payment of life, sick, accident,  
14      or other benefits to the members of such association or  
15      their dependents, if (A) no part of their net earnings  
16      inures (other than through such payments) to the bene-  
17      fit of any private shareholder or individual, and (B)  
18      85 per centum or more of the income consists of  
19      amounts collected from members for the sole purpose  
20      of making such payments and meeting expenses;

21           (17) Teachers' retirement fund associations of a  
22      purely local character, if (A) no part of their net earn-  
23      ings inures (other than through payment of retirement  
24      benefits) to the benefit of any private shareholder or  
25      individual, and (B) the income consists solely of  
26      amounts received from public taxation, amounts



1 received from assessments upon the teaching salaries of  
2 members, and income in respect of investments.

3 **SEC. 102. TAX ON PERSONAL HOLDING COMPANIES.**

4 (a) *TAX ON PERSONAL HOLDING COMPANY.*—In  
5 addition to the tax imposed by section 13, there shall be  
6 levied, collected, and paid, for each taxable year, upon the  
7 undistributed adjusted net income of every personal holding  
8 company a tax of 35 per centum thereof. Such tax shall be  
9 computed, collected, and paid in the same manner and subject  
10 to the same provisions of law (including penalties) as the  
11 tax imposed by section 13.

12 (b) *DEFINITIONS.*—As used in this section,—

13 (1) The term “personal holding company”  
14 means any corporation (other than a banking or insur-  
15 ance corporation) if—(A) at least 80 per centum of  
16 its gross income for the taxable year is derived from  
17 rents, royalties, dividends, interest, annuities, and (ex-  
18 cept in the case of regular dealers in stock or securities)  
19 gains from the sale of stock or securities, and (B) at  
20 any time during the last half of the taxable year more  
21 than 50 per centum in value of its outstanding stock is  
22 owned, directly or indirectly, by or for not more than  
23 five individuals. For the purpose of determining the  
24 ownership of stock in a personal holding company—  
25 (C) stock owned, directly or indirectly, by a corpora-  
26 tion, partnership, estate, or trust shall be con-

1        *sidered as being owned proportionately by its share-*  
2        *holders, partners, or beneficiaries; (D) an individual*  
3        *shall be considered as owning, to the exclusion of any*  
4        *other individual, the stock owned, directly or indirectly,*  
5        *by his family, and this rule shall be applied in such*  
6        *manner as to produce the smallest possible number of*  
7        *individuals owning, directly or indirectly, more than 50*  
8        *per centum in value of the outstanding stock; and (E)*  
9        *the family of an individual shall include only his*  
10       *brothers and sisters (whether by the whole or half*  
11       *blood), spouse, ancestors, and lineal descendants.*  
12       *For the purpose of clause (A) of this paragraph the*  
13       *term "gross income" includes the amount of interest*  
14       *upon obligations of the United States issued after*  
15       *September 1, 1917, which would be subject to tax in*  
16       *whole or in part in the hands of an individual owner.*

17                *(2) The term "undistributed adjusted net in-*  
18        *come" means the adjusted net income minus the sum of:*

19                        *(A) 10 per centum of the adjusted net*  
20        *income; and*

21                        *(B) Dividends paid during the taxable year.*

22                *(3) The term "adjusted net income" means the*  
23        *sum of:*

24                        *(A) The net income determined without re-*  
25        *gard to the provisions of this section;*

1           (B) *The amount of the dividend deduction*  
 2           *allowed under section 23(p); and*

3           (C) *The amount of interest upon obligations*  
 4           *of the United States issued after September 1,*  
 5           *1917, which would be subject to tax in whole or*  
 6           *in part in the hands of an individual owner;*  
 7           *minus the sum of:*

8           (D) *Federal income, war-profits, and ex-*  
 9           *cess-profits taxes paid or accrued, but not includ-*  
 10           *ing the tax imposed by this section;*

11           (E) *Contributions or gifts, not otherwise*  
 12           *allowed as a deduction, to or for the use of donees*  
 13           *described in section 23(o) for the purposes therein*  
 14           *specified; and*

15           (F) *Losses from sales or exchanges of capi-*  
 16           *tal assets which are disallowed as a deduction by*  
 17           *section 117(d).*

18 **SEC. 104. ACCUMULATION OF SURPLUS TO EVADE INTER-**  
 19 **NAL REVENUE TAXES.**

20           (a) **If any corporation, however created or organized,**  
 21 **is formed or created or for the purpose of preventing the**  
 22 **imposition of any internal-revenue tax upon its shareholders**  
 23 **through the medium of permitting its gains and profits to**  
 24 **accumulate instead of being divided or distributed, there shall**  
 25 **be levied, collected, and paid for each taxable year upon**  
 26 **the net income of such corporation a tax equal to 50 per**

1    contam of the amount thereof, which shall be in addition  
2    to the tax imposed by section 13 and shall be computed,  
3    collected, and paid upon the same basis and in the same man-  
4    ner and subject to the same provisions of law, including  
5    penalties, as that tax.

6    **SEC. 103. TAX ON OTHER CORPORATIONS IMPROPERLY ACCU-**  
7                                    **MULATING SURPLUS.**

8            (a) *In addition to the tax imposed by section 13, there*  
9    *shall be levied, collected, and paid for each taxable year upon*  
10   *the net income of every corporation (other than a personal*  
11   *holding company as defined in section 102) a tax equal to*  
12   *25 per centum of the amount thereof, if such corporation,*  
13   *however created or organized, is formed or availed of for the*  
14   *purpose of preventing the imposition of the surtax upon its*  
15   *shareholders or the shareholders of any other corporation,*  
16   *through the medium of permitting gains and profits to accu-*  
17   *minate instead of being divided or distributed. Such tax*  
18   *shall be computed, collected, and paid in the same manner*  
19   *and subject to the same provisions of law (including*  
20   *penalties) as the tax imposed by section 13.*

21           (b) *The fact that any corporation is a mere holding*  
22   *or investment company, or that the gains or profits are per-*  
23   *mitted to accumulate beyond the reasonable needs of the*  
24   *business, shall be prima facie evidence of a purpose to escape*  
25    ~~any internal-revenue tax~~ *avoid surtax.*

1       **(c) As used in this section the term "net income"**  
2       **means the net income as defined in section 21, increased by**  
3       **the sum of the amount of the dividend deduction allowed**  
4       **under section 23(p) and the amount of the interest on**  
5       **obligations of the United States issued after September 1,**  
6       **1917, which would be subject to tax in whole or in part**  
7       **in the hands of an individual owner.**

8       *(c) As used in this section, the term "net income"*  
9       *means the net income as defined in section 21, increased by*  
10       *the sum of:*

11               *(1) the amount of the dividend deduction allowed*  
12               *under section 23(p), and*

13               *(2) the amount of the interest on obligations of*  
14               *the United States issued after September 1, 1917,*  
15               *which would be subject to tax in whole or in part*  
16               *in the hands of an individual owner;*

17       *but diminished by the amount of dividends paid during*  
18       *the taxable year.*

19       **(d) The tax imposed by this section shall not apply**  
20       **if all the shareholders of the corporation include (at the**  
21       **time of filing their returns) in their gross income their**  
22       **entire distributive shares, whether distributed or not, of**  
23       **the net income of the corporation for such year. Any**  
24       **amount so included in the gross income of a shareholder**  
25       **shall be treated as a dividend received. Any subsequent**  
26       **distribution made by the corporation out of the earnings or**

1 profits for such taxable year shall, if distributed to any  
2 shareholder who has so included in his gross income his  
3 distributive share, be exempt from tax in the amount of  
4 the share so included.

5 **SEC. 104. TAX ON CITIZENS AND CORPORATIONS OF CERTAIN**  
6 **FOREIGN COUNTRIES.**

7 *Whenever the President finds that, under the laws of*  
8 *any foreign country, citizens or corporations of the United*  
9 *States are being subjected to discriminatory taxes, the Presi-*  
10 *dent shall so proclaim and each citizen or corporation of*  
11 *such foreign country shall be subject, for the taxable year*  
12 *during which such proclamation is made, and for each*  
13 *taxable year thereafter, to an additional income tax equal to*  
14 *50 per centum of the income tax otherwise imposed upon*  
15 *such citizen or corporation by this title. Such additional*  
16 *income tax shall be computed, collected, and paid in*  
17 *the same manner and subject to the same provisions of law*  
18 *(including penalties) as the taxes imposed by sections 11,*  
19 *12, and 13 upon such citizen or corporation. Whenever*  
20 *the President finds that the laws of any foreign country*  
21 *with respect to which the President has made a proclamation*  
22 *under the preceding provisions of this section have been modi-*  
23 *fied so that discriminatory taxes applicable to citizens and*  
24 *corporations of the United States have been removed, he shall*  
25 *so proclaim, and the provisions of this section levying an*  
26 *additional income tax shall not apply to any citizen or corpo-*

1 *ration of such foreign country with respect to any taxable*  
 2 *year beginning after such proclamation is made.*

3 **SEC. 105. TAXABLE PERIOD EMBRACING YEARS WITH**  
 4 **DIFFERENT LAWS.**

5 If it is necessary to compute the tax for a period begin-  
 6 ning in one calendar year (hereinafter in this section called  
 7 "first calendar year") and ending in the following calendar  
 8 year (hereinafter in this section called "second calendar  
 9 year") and the law applicable to the second calendar year  
 10 is different from the law applicable to the first calendar year,  
 11 then the tax under this title for the period ending during the  
 12 second calendar year shall be in the sum of: (1) the same  
 13 proportion of a tax for the entire period, determined under  
 14 the law applicable to the first calendar year and at the rates  
 15 for such year, which the portion of such period falling within  
 16 the first calendar year is of the entire period; and (2) the  
 17 same proportion of a tax for the entire period, determined  
 18 under the law applicable to the second calendar year and at  
 19 the rates for such year, which the portion of such period  
 20 falling within the second calendar year is of the entire period.

21 **Supplement B—Computation of Net Income**

22 [Supplementary to Subtitle B, Part II]

23 **SEC. 111. DETERMINATION OF AMOUNT OF, AND RECOG-**  
 24 **NITION OF, GAIN OR LOSS.**

25 (a) **COMPUTATION OF GAIN OR LOSS.**—Except as  
 26 hereinafter provided in this section, the *The* gain from the

1 sale or other disposition of property shall be the excess of the  
2 amount realized therefrom over the adjusted basis provided in  
3 section 113 (b) *for determining gain*, and the loss shall be  
4 the excess of ~~such~~ *the adjusted basis provided in such section*  
5 *for determining loss* over the amount realized.

6 (b) AMOUNT REALIZED.—The amount realized from  
7 the sale or other disposition of property shall be the sum of  
8 any money received plus the fair market value of the  
9 property (other than money) received.

10 (c) RECOGNITION OF GAIN OR LOSS.—In the case of  
11 a sale or exchange, the extent to which the gain or loss  
12 determined under this section shall be recognized for the  
13 purposes of this title, shall be determined under the provi-  
14 sions of section 112.

15 (d) INSTALLMENT SALES.—Nothing in this sec-  
16 tion shall be construed to prevent (in the case of property  
17 sold under contract providing for payment in installments)  
18 the taxation of that portion of any installment payment  
19 representing gain or profit in the year in which such pay-  
20 ment is received.

21 **SEC. 111. RECOGNITION OF GAIN OR LOSS.**

22 (a) GENERAL RULE.—Upon the sale or exchange of  
23 property the entire amount of the gain or loss, determined  
24 under section 111, shall be recognized, except as hereinafter  
25 provided in this section.



**1 (b) EXCHANGES SOLELY IN KIND.—**

**2 (1) PROPERTY HELD FOR PRODUCTIVE USE OR**  
**3 INVESTMENT.—**No gain or loss shall be recognized if  
**4** property held for productive use in trade or business  
**5** or for investment (not including stock in trade or other  
**6** property held primarily for sale, nor stocks, bonds,  
**7** notes, choses in action, certificates of trust or beneficial  
**8** interest, or other securities or evidences of indebtedness  
**9** or interest) is exchanged solely for property of a like  
**10** kind to be held either for productive use in trade or  
**11** business or for investment.

**12 (2) STOCK FOR STOCK OF SAME CORPORA-**  
**13 TION.—**No gain or loss shall be recognized if common  
**14** stock in a corporation is exchanged solely for common  
**15** stock in the same corporation, or if preferred stock in a  
**16** corporation is exchanged solely for preferred stock in  
**17** the same corporation.

**18 (3) STOCK FOR STOCK ON REORGANIZATION.—**  
**19** No gain or loss shall be recognized if stock or securi-  
**20** ties in a corporation a party to a reorganization are, in  
**21** pursuance of the plan of reorganization, exchanged  
**22** solely for stock or securities in such corporation or in  
**23** another corporation a party to the reorganization.

**24 (4) SAME—GAIN OF CORPORATION.—**No gain  
**25** or loss shall be recognized if a corporation a party to a

1 reorganization exchanges property, in pursuance of the  
2 plan of reorganization, solely for stock or securities in  
3 another corporation a party to the reorganization.

4 (5) TRANSFER TO CORPORATION CONTROLLED  
5 BY TRANSFEROR.—No gain or loss shall be recognized  
6 if property is transferred to a corporation by one or more  
7 persons solely in exchange for stock or securities in such  
8 corporation, and immediately after the exchange such  
9 person or persons are in control of the corporation; but  
10 in the case of an exchange by two or more persons this  
11 paragraph shall apply only if the amount of the stock  
12 and securities received by each is substantially in pro-  
13 portion to his interest in the property prior to the  
14 exchange.

15 (c) GAIN FROM EXCHANGES NOT SOLELY IN KIND.—

16 (1) If an exchange would be within the provi-  
17 sions of subsection (b) (1), (2), (3), or (5) of this  
18 section if it were not for the fact that the property  
19 received in exchange consists not only of property per-  
20 mitted by such paragraph to be received without the  
21 recognition of gain, but also of other property or money,  
22 then the gain, if any, to the recipient shall be recog-  
23 nized, but in an amount not in excess of the sum of such  
24 money and the fair market value of such other property.

1           (2) If a distribution made in pursuance of a plan  
2 of reorganization is within the provisions of paragraph  
3 (1) of this subsection but has the effect of the distri-  
4 bution of a taxable dividend, then there shall be taxed  
5 as a dividend to each distributee such an amount of  
6 the gain recognized under paragraph (1) as is not in  
7 excess of his ratable share of the undistributed earnings  
8 and profits of the corporation accumulated after Feb-  
9 ruary 28, 1913. The remainder, if any, of the gain  
10 recognized under paragraph (1) shall be taxed as a  
11 gain from the exchange of property.

12           (d) SAME—GAIN OF CORPORATION.—If an ex-  
13 change would be within the provisions of subsection (b)  
14 (4) of this section if it were not for the fact that the property  
15 received in exchange consists not only of stock or securities  
16 permitted by such paragraph to be received without the  
17 recognition of gain, but also of other property or money,  
18 then—

19           (1) If the corporation receiving such other prop-  
20 erty or money distributes it in pursuance of the plan  
21 of reorganization, no gain to the corporation shall be  
22 recognized from the exchange, but

23           (2) If the corporation receiving such other prop-  
24 erty or money does not distribute it in pursuance of the  
25 plan of reorganization, the gain, if any, to the corpora-

1           tion shall be recognized, but in an amount not in excess  
2           of the sum of such money and the fair market value of  
3           such other property so received, which is not so  
4           distributed.

5           (e) LOSS FROM EXCHANGES NOT SOLELY IN  
6    KIND.—If an exchange would be within the provisions of  
7    subsection (b) (1) to (5), inclusive, of this section if it  
8    were not for the fact that the property received in exchange  
9    consists not only of property permitted by such paragraph  
10   to be received without the recognition of gain or loss, but  
11   also of other property or money, then no loss from the  
12   exchange shall be recognized.

13           (f) INVOLUNTARY CONVERSIONS.—If property (as a  
14   result of its destruction in whole or in part, theft or seizure,  
15   or an exercise of the power of requisition or condemnation,  
16   or the threat or imminence thereof) is compulsorily or  
17   involuntarily converted into property similar or related in  
18   service or use to the property so converted, or into money  
19   which is forthwith in good faith, under regulations pre-  
20   scribed by the Commissioner with the approval of the Sec-  
21   retary, expended in the acquisition of other property similar  
22   or related in service or use to the property so converted, or  
23   in the acquisition of control of a corporation owning such  
24   other property, or in the establishment of a replacement  
25   fund, no gain or loss shall be recognized. If any part of the

1 money is not so expended, the gain, if any, shall be recog-  
 2 nized, but in an amount not in excess of the money which  
 3 is not so expended.

4 ~~(g) DISTRIBUTION OF STOCK ON REORGANIZA-~~  
 5 ~~TION.—~~ If there is distributed, in pursuance of a plan of  
 6 reorganization, to a shareholder in a corporation a party to  
 7 the reorganization, stock or securities in such corporation  
 8 or in another corporation a party to the reorganization,  
 9 without the surrender by such shareholder of stock or securi-  
 10 ties in such a corporation, no gain to the distributee from  
 11 the receipt of such stock or securities shall be recognized.

12 ~~(h) SAME—EFFECT ON FUTURE DISTRIBUTIONS.—~~  
 13 The distribution, in pursuance of a plan of reorganization,  
 14 by or on behalf of a corporation a party to the reorganiza-  
 15 tion, of its stock or securities or stock or securities in a cor-  
 16 poration a party to the reorganization, if no gain to the  
 17 distributee from the receipt of such stock or securities was  
 18 recognized by law, shall not be considered a distribution  
 19 of earnings or profits within the meaning of section 115(b).  
 20 for the purpose of determining the taxability of subsequent  
 21 distributions by the corporation.

22 ~~(i) (g) DEFINITION OF REORGANIZATION.—~~As used  
 23 in this section and sections 113 and 115 section 113—

24 (1) The term "reorganization" means (A) a  
 25 merger or consolidation ~~(including the acquisition by~~

1 one corporation of at least a majority of the voting  
 2 stock and at least a majority of the total number of  
 3 shares of all other classes of stock of another corpora-  
 4 tion, or substantially all the properties of another corpo-  
 5 ration), or (B) a transfer by a corporation of all or a  
 6 part of its assets to another corporation if immediately  
 7 after the transfer the transferor or its stockholders or  
 8 both are in control of the corporation to which the  
 9 assets are transferred, or (C) a recapitalization, or (D)  
 10 a mere change in identity, form, or place of organiza-  
 11 tion, however effected.

12 (2) The term "a party to a reorganization"  
 13 includes a corporation resulting from a reorganization  
 14 and includes both corporations in the case of an acqui-  
 15 sition by one corporation of at least a majority of the  
 16 voting stock and at least a majority of the total num-  
 17 ber of shares of all other classes of stock of another  
 18 corporation.

19 ~~(j)~~ (h) DEFINITION OF CONTROL.—As used in this  
 20 section the term "control" means the ownership of at least  
 21 80 per centum of the voting stock and at least 80 per centum  
 22 of the total number of shares of all other classes of stock of  
 23 the corporation.

24 ~~(k)~~ (i) FOREIGN CORPORATIONS.—In determining  
 25 the extent to which gain shall be recognized in the case of

1 any of the exchanges ~~or distributions~~ (made after the date of  
 2 the enactment of this Act) described in subsection (b) (3),  
 3 (4), or (5), or described in so much of subsection (c) as  
 4 refers to subsection (b) (3) or (5), or described in subsec-  
 5 tion (d) ~~or (g)~~, a foreign corporation shall not be considered  
 6 as a corporation unless, prior to such exchange ~~or distribu-~~  
 7 ~~tion~~, it has been established to the satisfaction of the Com-  
 8 missioner that such exchange ~~or distribution~~ is not in pursu-  
 9 ance of a plan having as one of its principal purposes the  
 10 avoidance of Federal income taxes.

11 **SEC. 113. ADJUSTED BASIS FOR DETERMINING GAIN OR**  
 12 **LOSS.**

13 (a) **BASIS (UNADJUSTED) OF PROPERTY.**—The basis  
 14 of property shall be the cost of such property; except that—

15 (1) **INVENTORY VALUE.**—If the property should  
 16 have been included in the last inventory, the basis shall  
 17 be the last inventory value thereof.

18 (2) **GIFTS AFTER DECEMBER 31, 1920.**—If the  
 19 property was acquired by gift after December 31,  
 20 1920, the basis shall be the same as it would be in  
 21 the hands of the donor or the last preceding owner by  
 22 whom it was not acquired by gift, *except that for the*  
 23 *purpose of determining loss the basis shall be the basis*  
 24 *so determined or the fair market value of the property*  
 25 *at the time of the gift, whichever is lower.* If the facts

1        necessary to determine ~~such basis~~ *the basis in the hands*  
2        *of the donor or the last preceding owner* are unknown  
3        to the donee, the Commissioner shall, if possible,  
4        obtain such facts from such donor or last preceding  
5        owner, or any other person cognizant thereof. If the  
6        Commissioner finds it impossible to obtain such facts,  
7        *the basis in the hands of such donor or last preceding*  
8        *owner* shall be the fair market value of such property  
9        as found by the Commissioner as of the date or approx-  
10       imate date at which, according to the best information  
11       that the Commissioner is able to obtain, such property  
12       was acquired by such donor or last preceding owner.

13                (3) TRANSFER IN TRUST AFTER DECEMBER 31,  
14        1920.—If the property was acquired after December  
15        31, 1920, by a transfer in trust (other than by a  
16        transfer in trust by a bequest or devise) the basis shall  
17        be the same as it would be in the hands of the grantor,  
18        increased in the amount of gain or decreased in the  
19        amount of loss recognized to the grantor upon such  
20        transfer under the law applicable to the year in which  
21        the transfer was made.

22                (4) GIFT OR TRANSFER IN TRUST BEFORE  
23        JANUARY 1, 1921.—If the property was acquired by  
24        gift or transfer in trust on or before December 31, 1920,  
25        the basis shall be the fair market value of such property



1 at the time of such acquisition. The provisions of this  
2 paragraph shall apply to the acquisition of such  
3 property interests as are specified in section 402(e) of  
4 the Revenue Act of 1921, or in section 302(f) of  
5 the Revenue Act of 1924 or the Revenue Act of 1926  
6 (relating to property passing under power of appoint-  
7 ment) regardless of the time of acquisition.

8 (5) PROPERTY TRANSMITTED AT DEATH.—If  
9 personal property was acquired by specific bequest, or  
10 if real property was acquired by general or specific  
11 devise or by intestacy, the basis shall be the fair market  
12 value of the property at the time of the death of the  
13 decedent. If the property was acquired by the  
14 decedent's estate from the decedent, the basis in the  
15 hands of the estate shall be the fair market value of  
16 the property at the time of the death of the decedent.  
17 In all other cases if the property was acquired either  
18 by will or by intestacy, the basis shall be the fair market  
19 value of the property at the time of the distribution to  
20 the taxpayer. *If the property was acquired by be-*  
21 *quest, devise, or inheritance, the basis shall be the fair*  
22 *market value of such property at the time of such*  
23 *acquisition.* In the case of property transferred in  
24 trust to pay the income for life to or upon the order or  
25 direction of the grantor, with the right reserved to the

1 grantor at all times prior to his death to revoke the  
2 trust, the basis of such property in the hands of the  
3 persons entitled under the terms of the trust instrument  
4 to the property after the grantor's death shall, after  
5 such death, be the same as if the trust instrument had  
6 been a will executed on the day of the grantor's death.  
7 *For the purpose of this paragraph property passing*  
8 *without full and adequate consideration under a general*  
9 *power of appointment exercised by will shall be deemed*  
10 *to be property passing from the individual exercising*  
11 *such power by bequest or devise.*

12 (6) TAX-FREE EXCHANGES GENERALLY.—If the  
13 property was ~~acquired~~ acquired, after February 28,  
14 1913, upon an exchange described in section 112 (b)  
15 to (e), inclusive, the basis shall be the same as in  
16 the case of the property exchanged, decreased in the  
17 amount of any money received by the taxpayer and  
18 increased in the amount of gain or decreased in the  
19 amount of loss to the taxpayer that was recognized  
20 upon such exchange under the law applicable to the  
21 year in which the exchange was made. If the property  
22 so acquired consisted in part of the type of property  
23 permitted by section 112 (b) to be received without  
24 the recognition of gain or loss, and in part of other  
25 property, the basis provided in this paragraph shall be  
26 allocated between the properties (other than money)

1 received, and for the purpose of the allocation there  
2 shall be assigned to such other property an amount  
3 equivalent to its fair market value at the date of the  
4 exchange. This paragraph shall not apply to property  
5 acquired by a corporation by the issuance of its stock  
6 or securities as the consideration in whole or in part  
7 for the transfer of the property to it.

8 (7) TRANSFERS TO CORPORATION WHERE CON-  
9 TROL OF PROPERTY REMAINS IN SAME PERSONS.—If  
10 the property was acquired after December 31, 1917,  
11 by a corporation in connection with a reorganization,  
12 and immediately after the transfer an interest or control  
13 in such property of 50 per centum or more remained  
14 in the same persons or any of them, then the basis shall  
15 be the same as it would be in the hands of the trans-  
16 feror, increased in the amount of gain or decreased in  
17 the amount of loss recognized to the transferor upon  
18 such transfer under the law applicable to the year in  
19 which the transfer was made. This paragraph shall  
20 not apply if the property acquired consists of stock or  
21 securities in a corporation a party to the reorganization,  
22 unless acquired by the issuance of stock or securities of  
23 the transferee as the consideration in whole or in part  
24 for the transfer.

1           (8) PROPERTY ACQUIRED BY ISSUANCE OF  
2 STOCK OR AS PAID-IN SURPLUS.—If the property was  
3 acquired after December 31, 1920, by a corporation—

4           (A) by the issuance of its stock or securities  
5 in connection with a transaction described in sec-  
6 tion 112 (b) (5) (including, also, cases where  
7 part of the consideration for the transfer of such  
8 property to the corporation was property or  
9 money, in addition to such stock or securities), or

10           (B) as paid-in surplus or as a contribution  
11 to capital,

12 then the basis shall be the same as it would be in the  
13 hands of the transferor, increased in the amount of gain  
14 or decreased in the amount of loss recognized to the  
15 transferor upon such transfer under the law applicable  
16 to the year in which the transfer was made.

17           ~~(9) TAX-FREE DISTRIBUTIONS.—If the property~~  
18 ~~consists of stock or securities distributed after Decem-~~  
19 ~~ber 31, 1925, to a taxpayer in connection with a~~  
20 ~~transaction described in section 112 (g), the basis in~~  
21 ~~the case of the stock in respect of which the distribu-~~  
22 ~~tion was made shall be apportioned, under rules and~~  
23 ~~regulations prescribed by the Commissioner with the~~  
24 ~~approval of the Secretary, between such stock and the~~  
25 ~~stock or securities distributed.~~

1           ~~(10)~~ (9) INVOLUNTARY CONVERSION.—If the  
2 property was ~~acquired~~ *acquired, after February 28,*  
3 *1913,* as the result of a compulsory or involuntary  
4 conversion described in section 112 (f), the basis shall  
5 be the same as in the case of the property so con-  
6 verted, decreased in the amount of any money received  
7 by the taxpayer which was not expended in accordance  
8 with the provisions of law (applicable to the year in  
9 which such conversion was made) determining the tax-  
10 able status of the gain or loss upon such conversion,  
11 and increased in the amount of gain or decreased in  
12 the amount of loss to the taxpayer recognized upon  
13 such conversion under the law applicable to the year  
14 in which such conversion was made.

15           ~~(11)~~ (10) WASH SALES OF STOCK.—If the prop-  
16 erty consists of stock or securities the acquisition of  
17 which (or the contract or option to acquire which)  
18 resulted in the nondeductibility (under section 118  
19 of this Act or corresponding provisions of prior income  
20 tax laws, relating to wash sales) of the loss from the  
21 sale or other disposition of substantially identical stock  
22 or securities, then the basis shall be the basis of the  
23 stock or securities so sold or disposed of, increased or  
24 decreased, as the case may be, by the difference, if any,  
25 between the price at which the property was acquired

1 and the price at which such substantially identical  
2 stock or securities were sold or otherwise disposed of.

3 ~~(12)~~ (11) PROPERTY ACQUIRED DURING AFFIL-  
4 LIATION.—In the case of property acquired by a corpo-  
5 ration, during a period of affiliation, from a corporation  
6 with which it was affiliated, the basis of such property,  
7 after such period of affiliation, shall be determined, in  
8 accordance with regulations prescribed by the Com-  
9 missioner with the approval of the Secretary, without  
10 regard to inter-company transactions in respect of  
11 which gain or loss was not recognized. For the pur-  
12 poses of this paragraph, the term “ period of affiliation ”  
13 means the period during which such corporations were  
14 affiliated (determined in accordance with the law ap-  
15 plicable thereto) but does not include any taxable year  
16 beginning on or after January 1, 1922, unless a con-  
17 solidated return was made, nor any taxable year after  
18 the taxable year 1928. The basis in case of property  
19 acquired by a corporation during any period, in the  
20 taxable year 1929 or any subsequent taxable year, in  
21 respect of which a consolidated return is made by such  
22 corporation under section 141 of this Act or the Rev-  
23 enue Act of 1928 or the Revenue Act of 1932, shall be  
24 determined in accordance with regulations prescribed  
25 under section 141 (b) of this Act or the Revenue Act

1 of 1928 or the Revenue Act of 1932. The basis in  
2 the case of property held by a corporation during any  
3 period, in the taxable year 1929 or any subsequent  
4 taxable year, in respect of which a consolidated return  
5 is made by such corporation under section 141 of this  
6 Act or the Revenue Act of 1928 or the Revenue Act of  
7 1932, shall be adjusted in respect of any items relating  
8 to such period, in accordance with regulations pre-  
9 scribed under section 141 (b) of this Act or the  
10 Revenue Act of 1928 or the Revenue Act of 1932,  
11 applicable to such period.

12 (12) If the property was acquired, after Febru-  
13 ary 28, 1913, in any taxable year beginning prior to  
14 January 1, 1934, and the basis thereof, for the pur-  
15 poses of the Revenue Act of 1932 was prescribed by  
16 section 113(a) (6), (7), or (9) of such Act, then for  
17 the purposes of this Act the basis shall be the same as the  
18 basis therein prescribed in the Revenue Act of 1932.

19 (13) If the property was acquired, after Febru-  
20 ary 28, 1913, by a partnership and the basis is not  
21 otherwise determined under any of the paragraphs (1)  
22 to (12), inclusive, of this subsection, then the basis shall  
23 be the same as it would be in the hands of the transferor,  
24 increased in the amount of gain or decreased in the  
25 amount of loss recognized to the transferor upon such  
26 transfer under the law applicable to the year in which

1        *the transfer was made. If the property was distributed*  
 2        *in kind by a partnership to any partner, the basis of*  
 3        *such property in the hands of the partner shall be such*  
 4        *part of the basis in his hands of his partnership interest*  
 5        *as is properly allocable to such property.*

6            ~~(13)~~ (14) **PROPERTY ACQUIRED BEFORE MARCH**  
 7        **1, 1913.**—In the case of property acquired before  
 8        March 1, 1913, if the basis otherwise determined under  
 9        this subsection, adjusted (*for the period prior to*  
 10        *March 1, 1913*) as provided in subsection (b), is  
 11        less than the fair market value of the property as of  
 12        **March 1, 1913**, then the basis *for determining gain* shall  
 13        be such fair market value. In determining the fair  
 14        market value of stock in a corporation as of March 1,  
 15        1913, due regard shall be given to the fair market value  
 16        of the assets of the corporation as of that date.

17        (b) **ADJUSTED BASIS.**—The adjusted basis for deter-  
 18        mining the gain or loss from the sale or other disposition of  
 19        property, whenever acquired, shall be the basis determined  
 20        under subsection (a), adjusted as hereinafter provided.

21            (1) **GENERAL RULE.**—Proper adjustment in  
 22        respect of the property shall in all cases be made—

23            (A) for expenditures, receipts, losses, or  
 24        other items, properly chargeable to capital account,  
 25        including taxes and other carrying charges on unim-



1 proved and unproductive real property, but no  
2 such adjustment shall be made for taxes or other  
3 carrying charges for which deductions have been  
4 taken by the taxpayer in determining net income  
5 for the taxable year or prior taxable years;

6 (B) in respect of any period since February  
7 28, 1913, for exhaustion, wear and tear, obso-  
8 lescence, amortization, and depletion, to the extent  
9 allowed (but not less than the amount allowable)  
10 under this Act or prior income tax laws. Where  
11 for any taxable year prior to the taxable year 1932  
12 the depletion allowance was based on discovery  
13 value or a percentage of income, then the adjust-  
14 ment for depletion for such year shall be based on  
15 the depletion which would have been allowable  
16 for such year if computed without reference to  
17 discovery value or a percentage of income;

18 (C) in respect of any period prior to March  
19 1, 1913, for exhaustion, wear and tear, obsoles-  
20 cence, amortization, and depletion, to the extent  
21 sustained;

22 (D) in the case of stock (to the extent not  
23 provided for in the foregoing subparagraphs) for  
24 the amount of distributions previously made  
25 which, under the law applicable to the year in

1           which the distribution was made, either were tax-  
2           free or were applicable in reduction of basis (not  
3           including distributions made by a corporation,  
4           which was classified as a personal service cor-  
5           poration under the provisions of the Revenue Act  
6           of 1918 or 1921, out of its earnings or profits  
7           which were taxable in accordance with the provi-  
8           sions of section 218 of the Revenue Act of 1918  
9           or 1921).

10           (2) **SUBSTITUTED BASIS.**—The term “substi-  
11           tuted basis” as used in this subsection means a basis  
12           determined under any provision of subsection (a) of  
13           this section or under any corresponding provision of a  
14           prior income tax law, providing that the basis shall be  
15           determined—

16                   (A) by reference to the basis in the hands of  
17                   a transferor, donor, or grantor, or

18                   (B) by reference to other property held at  
19                   any time by the person for whom the basis is to  
20                   be determined.

21           Whenever it appears that the basis of property in the  
22           hands of the taxpayer is a substituted basis, then the  
23           adjustments provided in paragraph (1) of this sub-  
24           section shall be made after first making in respect of  
25           such substituted basis proper adjustments of a similar

1 nature in respect of the period during which the prop-  
2 erty was held by the transferor, donor, or grantor, or  
3 during which the other property was held by the person  
4 for whom the basis is to be determined. A similar rule  
5 shall be applied in the case of a series of substituted  
6 bases.

7 **SEC. 114. BASIS FOR DEPRECIATION AND DEPLETION.**

8 (a) **BASIS FOR DEPRECIATION.**—The basis upon  
9 which exhaustion, wear and tear, and obsolescence are to  
10 be allowed in respect of any property shall be the adjusted  
11 basis provided in section 113 (b) for the purpose of deter-  
12 mining the gain or loss upon the sale or other disposition  
13 of such property.

14 (b) **BASIS FOR DEPLETION.**—

15 (1) **GENERAL RULE.**—The basis upon which de-  
16pletion is to be allowed in respect of any property shall  
17 be the adjusted basis provided in section 113 (b) for  
18 the purpose of determining the gain or loss upon the sale  
19 or other disposition of such property, except as provided  
20 in paragraphs (2), (3), and (4) of this subsection.

21 (2) **DISCOVERY VALUE IN CASE OF MINES.**—

22 In the case of mines (other than metal, coal or sulphur  
23 mines) discovered by the taxpayer after February 28,  
24 1918, the basis for depletion shall be the fair market  
25 value of the property at the date of discovery or within

1 thirty days thereafter, if such mines were not acquired  
2 as the result of purchase of a ~~proven tract or lease~~, and  
3 if the fair market value of the property is materially  
4 disproportionate to the cost. The depletion allowance  
5 *under section 23(m)* based on discovery value pro-  
6 vided in this paragraph shall not exceed 50 per centum  
7 of the net income of the taxpayer (computed without  
8 allowance for depletion) from the property upon which  
9 the discovery was made, except that in no case shall  
10 the depletion allowance *under section 23(m)* be less  
11 than it would be if computed without reference to dis-  
12 covery value. Discoveries shall include minerals in  
13 commercial quantities contained within a vein or de-  
14 posit discovered in an existing mine or mining tract  
15 by the taxpayer after February 28, 1913, if the vein  
16 or deposit thus discovered was not merely the un-  
17 interrupted extension of a continuing commercial vein  
18 or deposit already known to exist, and if the dis-  
19 covered minerals are of sufficient value and quantity  
20 that they could be separately mined and marketed at  
21 a profit.

22 (3) PERCENTAGE DEPLETION FOR OIL AND GAS  
23 WELLS.—In the case of oil and gas wells the allowance  
24 for depletion *under section 23(m)* shall be 27½ per  
25 centum of the gross income from the property during

1 the taxable year, excluding from such gross income an  
2 amount equal to any rents or royalties paid or incurred  
3 by the taxpayer in respect of the property. Such  
4 allowance shall not exceed 50 per centum of the net  
5 income of the taxpayer (computed without allowance  
6 for depletion) from the property, except that in no  
7 case shall the depletion allowance *under section 23(m)*  
8 be less than it would be if computed without reference  
9 to this paragraph.

10 (4) PERCENTAGE DEPLETION FOR COAL AND  
11 METAL MINES AND SULPHUR.—The allowance for  
12 depletion *under section 23(m)* shall be, in the case of  
13 coal mines, 5 per centum, in the case of metal mines,  
14 15 per centum, and, in the case of sulphur mines or de-  
15 posits, 23 per centum, of the gross income from the  
16 property during the taxable year, excluding from such  
17 gross income an amount equal to any rents or royalties  
18 paid or incurred by the taxpayer in respect of the prop-  
19 erty. Such allowance shall not exceed 50 per centum  
20 of the net income of the taxpayer (computed without  
21 allowance for depletion) from the property, except that  
22 in no case shall the depletion allowance for the taxable  
23 year 1932 or 1933 be less than it would be if computed  
24 without reference to this paragraph. A taxpayer mak-  
25 ing return for the taxable year 1933 shall state in

1 such return, as to each property (or, if he first  
2 makes return in respect of a property for any tax-  
3 able year after the taxable year 1988, then in such  
4 first return), whether he elects to have the deple-  
5 tion allowance for such property for succeeding tax-  
6 able years computed with or without reference to  
7 percentage depletion. The depletion allowance in  
8 respect of such property for all succeeding taxable  
9 years shall be computed according to the election thus  
10 made. If the taxpayer fails to make such statement in  
11 the return, the depletion allowance for such property  
12 for succeeding taxable years shall be computed without  
13 reference to percentage depletion. During the period  
14 for which property acquired after December 31, 1988,  
15 is held by the taxpayer—

16 (A) if the basis of the property in the hands  
17 of the taxpayer is, under section 113(a), deter-  
18 mined by reference to the basis in the hands of  
19 the transferor, donor, or grantor, then the deple-  
20 tion allowance in respect of the property shall be  
21 computed with or without reference to percentage  
22 depletion, according to the method of computation  
23 which would have been applicable if the transferor,  
24 donor, or grantor had continued to hold the prop-  
25 erty, or

1            ~~(B)~~ if the basis of the property is, under sec-  
 2            tion 113(a), determined by reference to the basis  
 3            of other property previously held by the taxpayer,  
 4            then the depletion allowance in respect of the  
 5            property shall be computed with or without refer-  
 6            ence to percentage depletion, according to the  
 7            method of computation which would have been  
 8            applicable in respect of the property previously  
 9            held if the taxpayer had continued to hold such  
 10           property.

11           *A taxpayer making his first return under this title in*  
 12           *respect of a property shall state whether he elects to have*  
 13           *the depletion allowance for such property for the taxable*  
 14           *year for which the return is made computed with or*  
 15           *without regard to percentage depletion, and the depletion*  
 16           *allowance in respect of such property for such year and*  
 17           *all succeeding taxable years shall be computed according*  
 18           *to the election thus made. If the taxpayer fails to make*  
 19           *such statement in the return, the depletion allowance for*  
 20           *such property for all taxable years shall be computed*  
 21           *without reference to percentage depletion.*

22    **SEC. 115. DISTRIBUTIONS BY CORPORATIONS.**

23           (a) **DEFINITION OF DIVIDEND.**—The term “dividend”  
 24           when used in this title (except in section 203(a)(4)  
 25           and section ~~208(e)(1)~~ 207(c)(1), relating to insurance

1 companies) means any distribution made by a corporation  
2 to its shareholders, whether in money or in other property,  
3 out of its earnings or profits accumulated after February  
4 28, 1913.

5 (b) SOURCE OF DISTRIBUTIONS.—For the purposes  
6 of this Act every distribution is made out of earnings or  
7 profits to the extent thereof, and from the most recently  
8 accumulated earnings or profits. Any earnings or profits  
9 accumulated, or increase in value of property accrued,  
10 before March 1, 1913, may be distributed exempt from tax,  
11 after the earnings and profits accumulated after February  
12 28, 1913, have been distributed, but any such tax-free dis-  
13 tribution shall be applied against and reduce the basis of  
14 the stock provided in section 113.

15 (c) DISTRIBUTIONS IN LIQUIDATION.—Amounts dis-  
16 tributed in complete liquidation of a corporation shall be  
17 treated as in full payment in exchange for the stock, and  
18 amounts distributed in partial liquidation of a corporation  
19 shall be treated as in part or full payment in exchange for the  
20 stock. The gain or loss to the distributee resulting from  
21 such exchange shall be determined under section 111, but  
22 shall be recognized only to the extent provided in section  
23 112. *Despite the provisions of section 117(a), 100 per*  
24 *centum of the gain so recognized shall be taken into account*  
25 *in computing net income.* In the case of amounts distributed



1 (whether before January 1, 1934, or on or after such date)  
2 in partial liquidation (other than a distribution within the  
3 provisions of section 112(b) subsection (h) of this section  
4 of stock or securities in connection with a reorganization)  
5 the part of such distribution which is properly chargeable  
6 to capital account shall not be considered a distribution of  
7 earnings or profits within the meaning of subsection (b)  
8 of this section for the purpose of determining the taxability  
9 of subsequent distributions by the corporation.

10 (d) OTHER DISTRIBUTIONS FROM CAPITAL.—If any  
11 distribution (not in partial or complete liquidation) made by  
12 a corporation to its shareholders is not out of increase in  
13 value of property accrued before March 1, 1918, and is not  
14 out of earnings or profits, then the amount of such distribu-  
15 tion shall be applied against and reduce the *adjusted* basis of  
16 the stock provided in section 113, and if in excess of such  
17 basis, such excess shall be taxable in the same manner as a  
18 gain from the sale or exchange of property.

19 (e) DISTRIBUTIONS BY PERSONAL SERVICE CORPORA-  
20 TIONS.—Any distribution made by a corporation, which was  
21 classified as a personal service corporation under the pro-  
22 visions of the Revenue Act of 1918 or the Revenue Act  
23 of 1921, out of its earnings or profits which were taxable  
24 in accordance with the provisions of section 218 of the Reve-

1    new Act of 1918 or section 218 of the Revenue Act of 1921,  
2    shall be exempt from tax to the distributees.

3            (f) STOCK DIVIDENDS.—A stock dividend shall not be  
4    subject to tax.

5            (g) REDEMPTION OF STOCK.—If a corporation cancels  
6    or redeems its stock (whether or not such stock was issued  
7    as a stock dividend) at such time and in such manner as  
8    to make the distribution and cancellation or redemption in  
9    whole or in part essentially equivalent to the distribution  
10   of a taxable dividend, the amount so distributed in redemp-  
11   tion or cancellation of the stock, to the extent that it repre-  
12   sents a distribution of earnings or profits accumulated after  
13   February 28, 1913, shall be treated as a taxable dividend.

14            (h) DISTRIBUTION OF STOCK ON REORGANIZA-  
15   TION—EFFECT ON FUTURE DISTRIBUTIONS.—*The dis-*  
16   *tribution before January 1, 1934, in pursuance of a plan*  
17   *of reorganization, by or on behalf of a corporation a party*  
18   *to the reorganization, of its stock or securities or stock or*  
19   *securities in a corporation a party to the reorganization, if*  
20   *no gain to the distributee from the receipt of such stock or*  
21   *securities was recognized by law, shall not be considered a*  
22   *distribution of earnings or profits within the meaning of this*  
23   *section for the purpose of determining the taxability of sub-*  
24   *sequent distributions by the corporation. As used in this*  
25   *subsection, the terms "reorganization" and "party to the*

1 reorganization" shall have the meanings assigned to such  
2 terms in section 112 of the Revenue Act of 1932.

3 ~~(b)~~ (i) DEFINITION OF PARTIAL LIQUIDATION.—As  
4 used in this section the term "amounts distributed in partial  
5 liquidation" means a distribution by a corporation in com-  
6 plete cancellation or redemption of a part of its stock, or one  
7 of a series of distributions in complete cancellation or redemp-  
8 tion of all or a portion of its stock.

9 SEC. 114. EXCLUSIONS FROM GROSS INCOME.

10 In addition to the items specified in section 22 (b), the  
11 following items shall not be included in gross income and  
12 shall be exempt from taxation under this title:

13 (a) EARNED INCOME FROM SOURCES WITHOUT  
14 UNITED STATES.—In the case of an individual citizen of  
15 the United States, a bona fide nonresident of the United  
16 States for more than six months during the taxable year,  
17 amounts received from sources without the United States  
18 (except amounts paid by the United States or any agency  
19 thereof) if such amounts *would* constitute earned income  
20 as defined in section 25 (a) if received from sources within the  
21 United States; but such individual shall not be allowed as  
22 a deduction from his gross income any deductions properly  
23 allocable to or chargeable against amounts excluded from  
24 gross income under this subsection. As used in this subsec-  
25 tion the term "earned income" means wages, salaries,  
26 professional fees, and other amounts received as compensa-

1 tion for personal services actually rendered, but does not  
2 include that part of the compensation derived by the tax-  
3 payer for personal services rendered by him to a corporation  
4 which represents a distribution of earnings or profits rather  
5 than a reasonable allowance as compensation for the personal  
6 services actually rendered. In the case of a taxpayer en-  
7 gaged in a trade or business in which both personal services  
8 and capital are material income producing factors, a reason-  
9 able allowance as compensation for the personal services  
10 actually rendered by the taxpayer, not in excess of 20 per  
11 centum of his share of the net profits of such trade or busi-  
12 ness, shall be considered as earned income.

18 (b) **TEACHERS IN ALASKA AND HAWAII.**—In the  
14 case of an individual employed by Alaska or Hawaii or any  
15 political subdivision thereof as a teacher in any educational  
16 institution, the compensation received as such. This sub-  
17 section shall not exempt compensation paid directly or  
18 indirectly by the Government of the United States. Sub-  
19 section (b) of section 5 of the Act entitled "An Act to pro-  
20 vide a government for the Territory of Hawaii", approved  
21 April 30, 1900, as amended by the Act entitled "An Act to  
22 amend section 5 of the Act entitled 'An Act to provide a  
23 government for the Territory of Hawaii', approved April 30,  
24 1900", approved April 12, 1920 [U.S.C., Sup. V, title 48,  
25 sec. 495(b)], is repealed as of January 1, 1932.

1           (c) **INCOME OF FOREIGN GOVERNMENTS.**—The in-  
2 come of foreign governments received from investments in  
3 the United States in stocks, bonds, or other domestic securi-  
4 ties, owned by such foreign governments, or from interest on  
5 deposits in banks in the United States of moneys belonging  
6 to such foreign governments, or from any other source  
7 within the United States.

8           (d) **INCOME OF STATES, MUNICIPALITIES, ETC.**—  
9 Income derived from any public utility or the exercise of any  
10 essential governmental function and accruing to any State,  
11 Territory, or the District of Columbia, or any political sub-  
12 division of a State or Territory, or income accruing to the  
13 government of any possession of the United States, or any  
14 political subdivision thereof.

15           Whenever any State, Territory, or the District of  
16 Columbia, or any political subdivision of a State or Terri-  
17 tory, prior to September 8, 1916, entered in good faith  
18 into a contract with any person, the object and purpose of  
19 which is to acquire, construct, operate, or maintain a public  
20 utility—

21           (1) If by the terms of such contract the tax  
22 imposed by this title is to be paid out of the proceeds  
23 from the operation of such public utility, prior to any  
24 division of such proceeds between the person and  
25 the State, Territory, political subdivision, or the

1 District of Columbia, and if, but for the imposition of  
2 the tax imposed by this title, a part of such proceeds for  
3 the taxable year would accrue directly to or for the  
4 use of such State, Territory, political subdivision, or  
5 the District of Columbia, then a tax upon the net income  
6 from the operation of such public utility shall be  
7 levied, assessed, collected, and paid in the manner  
8 and at the rates prescribed in this title, but there  
9 shall be refunded to such State, Territory, political  
10 subdivision, or the District of Columbia (under rules  
11 and regulations to be prescribed by the Commissioner  
12 with the approval of the Secretary) an amount which  
13 bears the same relation to the amount of the tax as the  
14 amount which (but for the imposition of the tax  
15 imposed by this title) would have accrued directly to  
16 or for the use of such State, Territory, political sub-  
17 division, or the District of Columbia, bears to the  
18 amount of the net income from the operation of such  
19 public utility for such taxable year.

20 (2) If by the terms of such contract no part of  
21 the proceeds from the operation of the public utility  
22 for the taxable year would, irrespective of the tax  
23 imposed by this title, accrue directly to or for the use  
24 of such State, Territory, political subdivision, or the  
25 District of Columbia, then the tax upon the net income

1 of such person from the operation of such public utility  
2 shall be levied, assessed, collected, and paid in the  
3 manner and at the rates prescribed in this title.

4 • (e) BRIDGES TO BE ACQUIRED BY STATE OR POLITI-  
5 CAL SUBDIVISION.—Whenever any State or political sub-  
6 division thereof, in pursuance of a contract to which it is not  
7 a party entered into before the enactment of the Revenue  
8 Act of 1928, is to acquire a bridge—

9 (1) If by the terms of such contract the tax im-  
10 posed by this title is to be paid out of the proceeds from  
11 the operation of such bridge prior to any division of  
12 such proceeds, and if, but for the imposition of the  
13 tax imposed by this title, a part of such proceeds for the  
14 taxable year would accrue directly to or for the use of  
15 or would be applied for the benefit of such State or  
16 political subdivision, then a tax upon the net income  
17 from the operation of such bridge shall be levied,  
18 assessed, collected, and paid in the manner and at the  
19 rates prescribed in this title, but there shall be refunded  
20 to such State or political subdivision (under rules and  
21 regulations to be prescribed by the Commissioner with  
22 the approval of the Secretary) an amount which bears  
23 the same relation to the amount of the tax as the amount  
24 which (but for the imposition of the tax imposed by  
25 this title) would have accrued directly to or for the use

1 of or would be applied for the benefit of such State or  
2 political subdivision, bears to the amount of the net  
3 income from the operation of such bridge for such tax-  
4 able year. No such refund shall be made unless the  
5 entire amount of the refund is to be applied in part  
6 payment for the acquisition of such bridge.

7 (2) If by the terms of such contract no part of  
8 the proceeds from the operation of the bridge for the  
9 taxable year would, irrespective of the tax imposed by  
10 this title, accrue directly to or for the use of or be  
11 applied for the benefit of such State or political sub-  
12 division, then the tax upon the net income from the  
13 operation of such bridge shall be levied, assessed, col-  
14 lected, and paid in the manner and at the rates pre-  
15 scribed in this title.

16 (f) DIVIDEND FROM "CHINA TRADE ACT" COR-  
17 PORATION.—In the case of a person, amounts distributed as  
18 dividends to or for his benefit by a corporation organized  
19 under the China Trade Act, 1922, if, at the time of such  
20 distribution, he is a resident of China, and the equitable right  
21 to the income of the shares of stock of the corporation is in  
22 good faith vested in him.

23 (g) SHIPOWNERS' PROTECTION AND INDEMNITY  
24 ASSOCIATIONS.—The receipts of shipowners' mutual protec-  
25 tion and indemnity associations not organized for profit, and  
26 no part of the net earnings of which inures to the benefit of



1 any private shareholder; but such corporations shall be sub-  
 2 ject as other persons to the tax upon their net income from  
 3 interest, dividends, and rents.

4 **SEC. 117. CAPITAL GAINS AND LOSSES.**

5 (a) *GENERAL RULE.*—In the case of a taxpayer,  
 6 other than a corporation, only the following percentages of  
 7 the gain or loss recognized upon the sale or exchange of a  
 8 capital asset shall be taken into account in computing net  
 9 income:

10 100 per centum if the capital asset has been held  
 11 for not more than 1 year;

12 80 per centum if the capital asset has been held  
 13 for more than 1 year but not for more than 2 years;

14 60 per centum if the capital asset has been held  
 15 for more than 2 years but not for more than 5 years;

16 40 per centum if the capital asset has been held for  
 17 more than 5 years.

18 (b) *DEFINITION OF CAPITAL ASSETS.*—For the pur-  
 19 poses of this title, “capital assets” means property held by  
 20 the taxpayer (whether or not connected with his trade or  
 21 business), but does not include ~~stock in~~ *stock in* trade of the taxpayer  
 22 or other property of a kind which would properly be included  
 23 in the inventory of the taxpayer if on hand at the close of  
 24 the taxable year, or property held by the taxpayer primarily  
 25 for sale in the course of his trade or business.

1           (c) *DETERMINATION OF PERIOD FOR WHICH HELD.*—

2   For the purpose of subsection (a)—

3           (1) *In determining the period for which the tax-*  
4           *payer has held property received on an exchange there*  
5           *shall be included the period for which he held the prop-*  
6           *erty exchanged, if under the provisions of section 113,*  
7           *the property received has, for the purpose of determining*  
8           *gain or loss from a sale or exchange, the same basis in*  
9           *whole or in part in his hands as the property exchanged.*

10          (2) *In determining the period for which the tax-*  
11          *payer has held property however acquired there shall*  
12          *be included the period for which such property was held*  
13          *by any other person, if under the provisions of section*  
14          *113, such property has, for the purpose of determining*  
15          *gain or loss from a sale or exchange, the same basis in*  
16          *whole or in part in his hands as it would have in the*  
17          *hands of such other person.*

18          (3) *In determining the period for which the tax-*  
19          *payer has held stock or securities received upon a dis-*  
20          *tribution where no gain was recognized to the distributee*  
21          *under the provisions of section 112(g) of the Revenue*  
22          *Act of 1928 or the Revenue Act of 1932, there shall be*  
23          *included the period for which he held the stock or securi-*  
24          *ties in the distributing corporation prior to the receipt of*  
25          *the stock or securities upon such distribution.*

1           (4) *In determining the period for which the tax-*  
2           *payer has held stock or securities the acquisition of*  
3           *which (or the contract or option to acquire which) re-*  
4           *sulted in the nondeductibility (under section 118 of this*  
5           *Act or section 118 of the Revenue Act of 1928 or the*  
6           *Revenue Act of 1932, relating to wash sales) of the loss*  
7           *from the sale or other disposition of substantially iden-*  
8           *tical stock or securities, there shall be included the period*  
9           *for which he held the stock or securities the loss from*  
10          *the sale or other disposition of which was not deductible.*

11          (d) *LIMITATION ON CAPITAL LOSSES.—Losses from*  
12          *sales or exchanges of capital assets shall be allowed only to*  
13          *the extent of the gains from such sales or exchanges.*

14          (e) *GAINS AND LOSSES FROM SHORT SALES.—For*  
15          *the purposes of this title, gains or losses (A) from short sales*  
16          *of property, or (B) attributable to privileges or options to*  
17          *buy or sell property, or (C) from sales or exchanges of such*  
18          *privileges or options, shall be considered as gains or losses*  
19          *from sales or exchanges of capital assets held for one year*  
20          *or less.*

21          (f) *RETIREMENT OF BONDS, ETC.—For the purposes*  
22          *of this title, amounts received by the holder upon the retire-*  
23          *ment of bonds, debentures, notes, or certificates or other*  
24          *evidences of indebtedness issued by any corporation (includ-*  
25          *ing those issued by a government or political subdivision*

1 *thereof), with interest coupons or in registered form, shall be*  
2 *considered as amounts received in exchange therefor.*

3 **SEC. 118. LOSS FROM WASH SALES OF STOCK OR SECU-**  
4 **RITIES.**

5 (a) In the case of any loss claimed to have been sus-  
6 tained from any sale or other disposition of shares of stock  
7 or securities where it appears that, within a period beginning  
8 30 days before the date of such sale or disposition and ending  
9 30 days after such date, the taxpayer has acquired (by pur-  
10 chase or by an exchange upon which the entire amount of  
11 gain or loss was recognized by law), or has entered into a  
12 contract or option so to acquire, substantially identical  
13 stock or securities, then no deduction for the loss shall be  
14 allowed under section 23 (e) (2); nor shall such deduction  
15 be allowed under section 23 (f) unless the claim is made by a  
16 corporation, a dealer in stocks or securities, and with respect  
17 to a transaction made in the ordinary course of its business.

18 (b) If the amount of stock or securities acquired (or  
19 covered by the contract or option to acquire) is less than the  
20 amount of stock or securities sold or otherwise disposed of,  
21 then the particular shares of stock or securities the loss from  
22 the sale or other disposition of which is not deductible shall  
23 be determined under rules and regulations prescribed by the  
24 Commissioner with the approval of the Secretary.

1           (c) If the amount of stock or securities acquired (or  
 2 covered by the contract or option to acquire) is not less  
 3 than the amount of stock or securities sold or otherwise dis-  
 4 posed of, then the particular shares of stock or securities the  
 5 acquisition of which (or the contract or option to acquire  
 6 which) resulted in the nondeductibility of the loss shall be  
 7 determined under rules and regulations prescribed by the  
 8 Commissioner with the approval of the Secretary.

9 **SEC. 119. INCOME FROM SOURCES WITHIN UNITED STATES.**

10           (a) **GROSS INCOME FROM SOURCES IN UNITED**  
 11 **STATES.**—The following items of gross income shall be  
 12 treated as income from sources within the United States:

13           (1) **INTEREST.**—*Interest from the United States,*  
 14 *any Territory, any political subdivision of a Territory,*  
 15 *or the District of Columbia, and interest on bonds, notes,*  
 16 *or other interest-bearing obligations of residents, corpo-*  
 17 *rate or otherwise, not including—*

18           (A) interest on deposits with persons carry-  
 19 ing on the banking business paid to persons not  
 20 engaged in business within the United States and  
 21 not having an office or place of business therein, or

22           (B) interest received from a resident alien  
 23 individual, a resident foreign corporation, or a  
 24 domestic corporation, when it is shown to the satis-  
 25 faction of the Commissioner that less than 20 per

1           centum of the gross income of such resident payor  
 2           or domestic corporation has been derived from  
 3           sources within the United States, as determined  
 4           under the provisions of this section, for the three-  
 5           year period ending with the close of the taxable  
 6           year of such payor preceding the payment of such  
 7           interest, or for such part of such period as may be  
 8           applicable, or

9                   (C) income derived by a foreign central  
 10           bank of issue from bankers' acceptances;

11           (2) DIVIDENDS.—The amount received as divi-  
 12           dends—

13                   (A) from a domestic corporation other  
 14           than a corporation entitled to the benefits of  
 15           section 251, and other than a corporation less than  
 16           20 per centum of whose gross income is shown to  
 17           the satisfaction of the Commissioner to have been  
 18           derived from sources within the United States, as  
 19           determined under the provisions of this section,  
 20           for the three-year period ending with the close  
 21           of the taxable year of such corporation preceding  
 22           the declaration of such dividends (or for such part  
 23           of such period as the corporation has been in  
 24           existence), or

1 (B) from a foreign corporation unless less  
2 than 50 per centum of the gross income of such  
3 foreign corporation for the three-year period end-  
4 ing with the close of its taxable year preceding  
5 the declaration of such dividends (or for such part  
6 of such period as the corporation has been in  
7 existence) was derived from sources within the  
8 United States as determined under the provisions  
9 of this section;

10 (3) **PERSONAL SERVICES.**—Compensation for  
11 labor or personal services performed in the United  
12 States;

13 (4) **RENTALS AND ROYALTIES.**—Rentals or  
14 royalties from property located in the United States or  
15 from any interest in such property, including rentals  
16 or royalties for the use of or for the privilege of using  
17 in the United States, patents, copyrights, secret  
18 processes and formulas, good will, trade-marks, trade  
19 brands, franchises, and other like property; and

20 (5) **SALE OF REAL PROPERTY.**—Gains, profits,  
21 and income from the sale of real property located in  
22 the United States.

23 (6) **SALE OF PERSONAL PROPERTY.**—*For gains,*  
24 *profits, and income from the sale of personal property,*  
25 *see subsection (e).*

1           (b) NET INCOME FROM SOURCES IN UNITED  
2 STATES.—From the items of gross income specified in sub-  
3 section (a) of this section there shall be deducted the  
4 expenses, losses, and other deductions properly apportioned  
5 or allocated thereto and a ratable part of any expenses, losses,  
6 or other deductions which can not definitely be allocated  
7 to some item or class of gross income. The remainder, if  
8 any, shall be included in full as net income from sources  
9 within the United States.

10           (c) GROSS INCOME FROM SOURCES WITHOUT  
11 UNITED STATES.—The following items of gross income shall  
12 be treated as income from sources without the United States:

13           (1) Interest other than that derived from sources  
14 within the United States as provided in subsection  
15 (a) (1) of this section;

16           (2) Dividends other than those derived from  
17 sources within the United States as provided in sub-  
18 section (a) (2) of this section;

19           (3) Compensation for labor or personal services  
20 performed without the United States;

21           (4) Rentals or royalties from property located  
22 without the United States or from any interest in such  
23 property, including rentals or royalties for the use of  
24 or for the privilege of using without the United States,  
25 patents, copyrights, secret processes and formulas.



1 good will, trade-marks, trade brands, franchises, and  
2 other like properties; and

3 (5) Gains, profits, and income from the sale of  
4 real property located without the United States.

5 (d) NET INCOME FROM SOURCES WITHOUT UNITED  
6 STATES.—From the items of gross income specified in sub-  
7 section (c) of this section there shall be deducted the ex-  
8 penses, losses, and other deductions properly apportioned  
9 or allocated thereto, and a ratable part of any expenses,  
10 losses, or other deductions which can not definitely be allo-  
11 cated to some item or class of gross income. The remainder,  
12 if any, shall be treated in full as net income from sources  
13 without the United States.

14 (e) INCOME FROM SOURCES PARTLY WITHIN AND  
15 PARTLY WITHOUT UNITED STATES.—Items of gross  
16 income, expenses, losses and deductions, other than those  
17 specified in subsections (a) and (c) of this section, shall  
18 be allocated or apportioned to sources within or without  
19 the United States, under rules and regulations prescribed  
20 by the Commissioner with the approval of the Secretary.  
21 Where items of gross income are separately allocated to  
22 sources within the United States, there shall be deducted  
23 (for the purpose of computing the net income therefrom)  
24 the expenses, losses, and other deductions properly appor-  
25 tioned or allocated thereto and a ratable part of other

1 expenses, losses or other deductions which can not definitely  
2 be allocated to some item or class of gross income. The  
3 remainder, if any, shall be included in full as net income  
4 from sources within the United States. In the case of  
5 gross income derived from sources partly within and partly  
6 without the United States, the net income may first be  
7 computed by deducting the expenses, losses, or other deduc-  
8 tions apportioned or allocated thereto and a ratable part of  
9 any expenses, losses, or other deductions which can not  
10 definitely be allocated to some items or class of gross  
11 income; and the portion of such net income attributable  
12 to sources within the United States may be determined by  
13 processes or formulas of general apportionment prescribed  
14 by the Commissioner with the approval of the Secretary.  
15 Gains, profits, and income from—

16 (1) transportation or other services rendered  
17 partly within and partly without the United States, or

18 (2) from the sale of personal property produced  
19 (in whole or in part) by the taxpayer within and sold  
20 without the United States, or produced (in whole or in  
21 part) by the taxpayer without and sold within the  
22 United States,

23 shall be treated as derived partly from sources within and  
24 partly from sources without the United States. Gains, profits

1 and income derived from the purchase of personal property  
 2 within and its sale without the United States or from the  
 3 purchase of personal property without and its sale within the  
 4 United States, shall be treated as derived entirely from  
 5 sources within the country in which sold, except that gains,  
 6 profits, and income derived from the purchase of personal  
 7 property within the United States and its sale within a  
 8 possession of the United States or from the purchase of per-  
 9 sonal property within a possession of the United States and  
 10 its sale within the United States shall be treated as derived  
 11 partly from sources within and partly from sources without  
 12 the United States.

13 (f) DEFINITIONS.—As used in this section the words  
 14 “sale” or “sold” include “exchange” or “exchanged”;  
 15 and the word “produced” includes “created”, “fabri-  
 16 cated”, “manufactured”, “extracted”, “processed”,  
 17 “cured”, or “aged”.

18 **SEC. 120. UNLIMITED DEDUCTION FOR CHARITABLE**  
 19 **AND OTHER CONTRIBUTIONS.**

20 In the case of an individual if in the taxable year and  
 21 in each of the ten preceding taxable years the amount of the  
 22 contributions or gifts described in section ~~23(a)~~ 23(o) plus  
 23 the amount of income, war-profits, or excess-profits taxes  
 24 paid during such year in respect of preceding taxable years,  
 25 exceeds 90 per centum of the taxpayer's net income for each

1 such year, as computed without the benefit of section 23(a)  
 2 23(o), then the 15 per centum limit imposed by such section  
 3 shall not be applicable.

#### 4 Supplement C—Credits Against Tax

5 [Supplementary to Subtitle B, Part III]

### 6 SEC. 131. TAXES OF FOREIGN COUNTRIES AND POSSES- 7 SIONS OF UNITED STATES.

8 (a) ALLOWANCE OF CREDIT.—If the taxpayer signi-  
 9 fies in his return his desire to have the benefits of this section,  
 10 the tax imposed by this title shall be credited with:

11 (1) CITIZEN AND DOMESTIC CORPORATION.—In  
 12 the case of a citizen of the United States and of a domes-  
 13 tic corporation, the amount of any income, war-profits,  
 14 and excess-profits taxes paid or accrued during the tax-  
 15 able year to any foreign country or to any possession  
 16 of the United States; and

17 (2) RESIDENT OF UNITED STATES.—In the case  
 18 of a resident of the United States, the amount of any  
 19 such taxes paid or accrued during the taxable year to  
 20 any possession of the United States; and

21 (3) ALIEN RESIDENT OF UNITED STATES.—In  
 22 the case of an alien resident of the United States, the  
 23 amount of any such taxes paid or accrued during the  
 24 taxable year to any foreign country, if the foreign

1 country of which such alien resident is a citizen or sub-  
2 ject, in imposing such taxes, allows a similar credit  
3 to citizens of the United States residing in such country;  
4 and

5 (4) PARTNERSHIPS AND ESTATES.—In the case  
6 of any such individual who is a member of a partner-  
7 ship or a beneficiary of an estate or trust, his propor-  
8 tionate share of such taxes of the partnership or the  
9 estate or trust paid or accrued during the taxable year  
10 to a foreign country or to any possession of the United  
11 States, as the case may be.

12 (b) LIMIT ON CREDIT.—The amount of the credit  
13 taken under this section shall be subject to each of the  
14 following limitations:

15 (1) The amount of the credit in respect of the  
16 tax paid or accrued to any country shall not exceed the  
17 same proportion of the tax against which such credit  
18 is taken, which *one-half* of the taxpayer's net income  
19 from sources within such country bears to his entire  
20 net income for the same taxable year; and

21 (2) The total amount of the credit shall not  
22 exceed the same proportion of the tax against which  
23 such credit is taken, which *one-half* of the taxpayer's  
24 net income from sources without the United States  
25 bears to his entire net income for the same taxable year.

1           (c) ADJUSTMENTS ON PAYMENT OF ACCRUED  
2 TAXES.—If accrued taxes when paid differ from the  
3 amounts claimed as credits by the taxpayer, or if any tax  
4 paid is refunded in whole or in part, the taxpayer shall  
5 notify the Commissioner, who shall redetermine the amount  
6 of the tax for the year or years affected, and the amount of  
7 tax due upon such redetermination, if any, shall be paid by  
8 the taxpayer upon notice and demand by the collector, or  
9 the amount of tax overpaid, if any, shall be credited or  
10 refunded to the taxpayer in accordance with the provisions  
11 of section 322. In the case of such a tax accrued but not  
12 paid, the Commissioner as a condition precedent to the  
13 allowance of this credit may require the taxpayer to give a  
14 bond with sureties satisfactory to and to be approved by the  
15 Commissioner in such sum as the Commissioner may require,  
16 conditioned upon the payment by the taxpayer of any  
17 amount of tax found due upon any such redetermination; and  
18 the bond herein prescribed shall contain such further condi-  
19 tions as the Commissioner may require.

20           (d) YEAR IN WHICH CREDIT TAKEN.—The credits  
21 provided for in this section may, at the option of the tax-  
22 payer and irrespective of the method of accounting employed  
23 in keeping his books, be taken in the year in which the  
24 taxes of the foreign country or the possession of the United  
25 States accrued, subject, however, to the conditions prescribed

1 in subsection (c) of this section. If the taxpayer elects to  
2 take such credits in the year in which the taxes of the foreign  
3 country or the possession of the United States accrued, the  
4 credits for all subsequent years shall be taken upon the  
5 same basis, and no portion of any such taxes shall be allowed  
6 as a deduction in the same or any succeeding year.

7 (e) **PROOF OF CREDITS.**—The credits provided in this  
8 section shall be allowed only if the taxpayer establishes  
9 to the satisfaction of the Commissioner (1) the total amount  
10 of income derived from sources without the United States,  
11 determined as provided in section 119, (2) the amount  
12 of income derived from each country, the tax paid or accrued  
13 to which is claimed as a credit under this section, such  
14 amount to be determined under rules and regulations  
15 prescribed by the Commissioner with the approval of the  
16 Secretary, and (3) all other information necessary for the  
17 verification and computation of such credits.

18 (f) **TAXES OF FOREIGN SUBSIDIARY.**—For the pur-  
19 poses of this section a domestic corporation which owns a  
20 majority of the voting stock of a foreign corporation from  
21 which it receives dividends ~~(not deductible under section~~  
22 ~~23 (p))~~ in any taxable year shall be deemed to have paid  
23 the same proportion of any income, war-profits, or excess-  
24 profits taxes paid by such foreign corporation to any foreign  
25 country or to any possession of the United States, upon or

1 with respect to the accumulated profits of such foreign corpo-  
2 ration from which such dividends were paid, which the  
3 amount of such dividends bears to the amount of such accu-  
4 mulated profits: *Provided*, That the amount of tax deemed to  
5 have been paid under this subsection shall in no case exceed  
6 the same proportion of the tax against which credit is taken  
7 which the amount of such dividends bears to the amount of  
8 the entire net income of the domestic corporation in which  
9 such dividends are included. The term "accumulated  
10 profits" when used in this subsection in reference to a  
11 foreign corporation, means the amount of its gains, profits,  
12 or income in excess of the income, war-profits, and excess-  
13 profits taxes imposed upon or with respect to such profits or  
14 income; and the Commissioner with the approval of the Sec-  
15 retary shall have full power to determine from the accumu-  
16 lated profits of what year or years such dividends were paid;  
17 treating dividends paid in the first sixty days of any year as  
18 having been paid from the accumulated profits of the pre-  
19 ceding year or years (unless to his satisfaction shown other-  
20 wise), and in other respects treating dividends as having  
21 ~~been paid from the most~~ recently accumulated gains, profits,  
22 or earnings. In the case of a foreign corporation, the income,  
23 war-profits, and excess-profits taxes of which are determined  
24 on the basis of an accounting period of less than one year, the  
25 word "year" as used in this subsection shall be construed  
26 to mean such accounting period.



1 (g) **CORPORATIONS TREATED AS FOREIGN.**—For the  
 2 purposes of this section the following corporations shall be  
 3 treated as foreign corporations:

4 (1) A corporation entitled to the benefits of sec-  
 5 tion 251, by reason of receiving a large percentage of  
 6 its gross income from sources within a possession of  
 7 the United States;

8 (2) A corporation organized under the China  
 9 Trade Act, 1922, and entitled to the credit provided for  
 10 in section 261.

11 **SEC. 132. PAYMENTS UNDER 1922 ACT.**

12 Any amount paid before or after the enactment of this  
 13 Act on account of the tax imposed for a fiscal year beginning  
 14 in 1921 and ending in 1922 by Title II of the Revenue Act  
 15 of 1928 shall be credited toward the payment of the tax  
 16 imposed for such fiscal year by this Act, and if the amount  
 17 so paid exceeds the amount of such tax imposed by this Act,  
 18 the excess shall be credited or refunded in accordance with  
 19 the provisions of section 232.

20 **Supplement D—Returns and Payment of Tax.**

21 [Supplementary to Subtitle B, Part V]

22 **SEC. 141. CONSOLIDATED RETURNS OF CORPORATIONS.**

23 (a) **PRIVILEGE TO FILE CONSOLIDATED RETURNS.**—

24 An affiliated group of corporations shall, subject to the  
 25 provisions of this section, have the privilege of making a

1 consolidated return for the taxable year in lieu of separate  
2 returns. The making of a consolidated return shall be  
3 upon the condition that all the corporations which have  
4 been members of the affiliated group at any time during the  
5 taxable year for which the return is made consent to all the  
6 regulations under subsection (b) (or, in case such regula-  
7 tions are not prescribed prior to the making of the return,  
8 then the regulations prescribed under section 141 (b) of the  
9 Revenue Act of ~~1928~~ 1932 in so far as not inconsistent with  
10 this Act) prescribed prior to the making of such return;  
11 and the making of a consolidated return shall be considered  
12 as such consent. In the case of a corporation which is a  
13 member of the affiliated group for a fractional part of the  
14 year the consolidated return shall include the income of such  
15 corporation for such part of the year as it is a member of  
16 the affiliated group.

17 (b) REGULATIONS.—The Commissioner, with the  
18 approval of the Secretary, shall prescribe such regulations  
19 as he may deem necessary in order that the tax liability  
20 of an affiliated group of corporations making a consolidated  
21 return and of each corporation in the group, both during  
22 and after the period of affiliation, may be determined;  
23 computed, assessed, collected, and adjusted in such manner  
24 as clearly to reflect the income and to prevent avoidance of  
25 tax liability.

1           (c) COMPUTATION AND PAYMENT OF TAX.—In any  
 2 case in which a consolidated return is made the tax shall be  
 3 determined, computed, assessed, collected, and adjusted in  
 4 accordance with the regulations under subsection (b) (or,  
 5 in case such regulations are not prescribed prior to the  
 6 making of the return, then the regulations prescribed under  
 7 section 141 (b) of the Revenue Act of ~~1928~~ 1932 in so far  
 8 as not inconsistent with this Act) prescribed prior to the  
 9 date on which such return is made; ~~except that for the~~  
 10 ~~taxable years 1932 and 1933 there shall be added to the~~  
 11 ~~rate of tax prescribed by sections 13(a), 201(b), and~~  
 12 ~~204(a) a rate of three fourths of 1 per centum and except~~  
 13 ~~that for the taxable years 1934 and 1935 there shall be~~  
 14 ~~added to the rate of tax prescribed by sections 13(a),~~  
 15 ~~201(b), and 204(a), a rate of 1 per centum 2 per centum.~~

16           (d) DEFINITION OF "AFFILIATED GROUP".—As  
 17 used in this section an "affiliated group" means one or more  
 18 chains of corporations connected through stock ownership  
 19 with a common parent corporation if—

20           (1) At least 95 per centum of the stock of each  
 21 of the corporations (except the common parent corpora-  
 22 tion) is owned directly by one or more of the other  
 23 corporations; and

24           (2) The common parent corporation owns di-  
 25 rectly at least 95 per centum of the stock of at least one  
 26 of the other corporations.

1 As used in this subsection the term "stock" does not include  
2 nonvoting stock which is limited and preferred as to  
3 dividends.

4 (e) A consolidated return shall be made only for the  
5 domestic corporations within the affiliated group. An insur-  
6 ance company subject to the tax imposed by section 201 or  
7 204 shall not be included in the same consolidated return  
8 with a corporation subject to the tax imposed by section 13,  
9 and an insurance company subject to the tax imposed by  
10 section 201 shall not be included in the same consolidated  
11 return with an insurance company subject to the tax imposed  
12 by section 204.

13 (f) CHINA TRADE ACT CORPORATIONS.—A corpora-  
14 tion organized under the China Trade Act, 1922, shall not  
15 be deemed to be affiliated with any other corporation within  
16 the meaning of this section.

17 (g) CORPORATIONS DERIVING INCOME FROM POS-  
18 SESSIONS OF UNITED STATES.—For the purposes of this  
19 section a corporation entitled to the benefits of section 251,  
20 by reason of receiving a large percentage of its income from  
21 possessions of the United States, shall be treated as a foreign  
22 corporation.

23 (h) SUBSIDIARY FORMED TO COMPLY WITH FOREIGN  
24 LAW.—In the case of a domestic corporation owning or con-  
25 trolling, directly or indirectly, 100 per centum of the capital

1 stock (exclusive of directors' qualifying shares) of a corpora-  
 2 tion organized under the laws of a contiguous foreign country  
 3 and maintained solely for the purpose of complying with the  
 4 laws of such country as to title and operation of property,  
 5 such foreign corporation may, at the option of the domestic  
 6 corporation, be treated for the purpose of this title as a  
 7 domestic corporation.

8 (i) **SUSPENSION OF RUNNING OF STATUTE OF LIMITATIONS.**—  
 9 If a notice under section 272 (a) in respect of  
 10 a deficiency for any taxable year is mailed to a corporation,  
 11 the suspension of the running of the statute of limitations,  
 12 provided in section 277, shall apply in the case of corpora-  
 13 tions with which such corporation made a consolidated  
 14 return for such taxable year.

15 (j) **ALLOCATION OF INCOME AND DEDUCTIONS.**—  
 16 For allocation of income and deductions of related trades or  
 17 businesses, see section 45.

18 **SEC. 142. FIDUCIARY RETURNS.**

19 (a) **REQUIREMENT OF RETURN.**—Every fiduciary  
 20 (except a receiver appointed by authority of law in posses-  
 21 sion of part only of the property of an individual) shall  
 22 make under oath a return for any of the following individuals,  
 23 estates, or trusts for which he acts, stating specifically the  
 24 items of gross income thereof and the deductions and credits  
 25 allowed under this title—

1 (1) Every individual having a net income for the  
2 taxable year of \$1,000 or over, if single, or if married  
3 and not living with husband or wife;

4 (2) Every individual having a net income for the  
5 taxable year of \$2,500 or over, if married and living  
6 with husband or wife;

7 (3) Every individual having a gross income for  
8 the taxable year of \$5,000 or over, regardless of the  
9 amount of his net income;

10 (4) Every estate or trust the net income of which  
11 for the taxable year is \$1,000 or over;

12 (5) Every estate or trust the gross income of  
13 which for the taxable year is \$5,000 or over, regardless  
14 of the amount of the net income; and

15 (6) Every estate or trust of which any beneficiary  
16 is a nonresident alien,

17 (b) **JOINT FIDUCIARIES.**—Under such regulations as  
18 the Commissioner with the approval of the Secretary may  
19 prescribe a return made by one of two or more joint fidu-  
20 ciaries and filed in the office of the collector of the district  
21 where such fiduciary resides shall be sufficient compliance  
22 with the above requirement. Such fiduciary shall make oath

23 (1) that he has sufficient knowledge of the affairs of the  
24 individual, estate, or trust for which the return is made, to

1 enable him to make the return, and (2) that the return is,  
2 to the best of his knowledge and belief, true and correct.

3 (c) LAW APPLICABLE TO FIDUCIARIES.—Any fidu-  
4 ciary required to make a return under this title shall be  
5 subject to all the provisions of law which apply to individuals.

6 SEC. 143. WITHHOLDING OF TAX AT SOURCE.

7 (a) TAX-FREE COVENANT BONDS.—

8 (1) REQUIREMENT OF WITHHOLDING.—In any  
9 case where bonds, mortgages, or deeds of trust, or other  
10 similar obligations of a ~~corporation~~ *corporation*,  
11 *issued before January 1, 1934*, contain a contract or  
12 provision by which the obligor agrees to pay any portion  
13 of the tax imposed by this title upon the obligee, or  
14 to reimburse the obligee for any portion of the tax, or  
15 to pay the interest without deduction for any tax which  
16 the obligor may be required or permitted to pay thereon,  
17 or to retain therefrom under any law of the United  
18 States, the obligor shall deduct and withhold a tax  
19 equal to 2 per centum of the interest upon such bonds,  
20 mortgages, deeds of trust, or other obligations, whether  
21 such interest is payable annually or at shorter or longer  
22 periods, if payable to an individual, a partnership,  
23 or a foreign corporation not engaged in trade or  
24 business within the United States and not having any

1 office or place of business therein: *Provided*, That if  
 2 the liability assumed by the obligor does not exceed  
 3 2 per centum of the interest, then the deduction and  
 4 withholding shall be at the following rates: (A) 8 per  
 5 centum ~~4 per centum~~ in the case of a nonresident  
 6 alien individual, or of any partnership not engaged in  
 7 trade or business within the United States and not hav-  
 8 ing any office or place of business therein and com-  
 9 posed in whole or in part of nonresident aliens, (B)  
 10 13 $\frac{1}{2}$  per centum in the case of such a foreign corpora-  
 11 tion, and (C) 2 per centum in the case of other  
 12 individuals and partnerships: *Provided further*, That  
 13 if the owners of such obligations are not known to the  
 14 withholding agent the Commissioner may authorize  
 15 such deduction and withholding to be at the rate of  
 16 2 per centum, or, if the liability assumed by the obligor  
 17 does not exceed 2 per centum of the interest, then at  
 18 the rate of 8 per centum ~~4 per centum~~.

19 (2) BENEFIT OF CREDITS AGAINST NET  
 20 INCOME.—Such deduction and withholding shall not be  
 21 required in the case of a citizen or resident entitled to  
 22 receive such interest, if he files with the withholding  
 23 agent on or before February 1 a signed notice in writ-  
 24 ing claiming the benefit of the credits provided in  
 25 section 25(a) and (d) section 25(b); nor in the case



1 of a nonresident alien individual if so provided for in  
 2 regulations prescribed by the Commissioner under  
 3 section 215 section 214.

4 (3) INCOME OF OBLIGOR AND OBLIGEE.—The  
 5 obligor shall not be allowed a deduction for the pay-  
 6 ment of the tax imposed by this title, or any other tax  
 7 paid pursuant to the tax-free covenant clause, nor shall  
 8 such tax be included in the gross income of the obligee.

9 (b) NONRESIDENT ALIENS.—All persons, in what-  
 10 ever capacity acting, including lessees or mortgagors of real or  
 11 personal property, fiduciaries, employers, and all officers and  
 12 employees of the United States, having the control, receipt,  
 13 custody, disposal, or payment of interest (except interest on  
 14 deposits with persons carrying on the banking business paid  
 15 to persons not engaged in business in the United States and  
 16 not having an office or place of business therein), rent,  
 17 salaries, wages, premiums, annuities, compensations, remun-  
 18 erations, emoluments, or other fixed or determinable annual  
 19 or periodical gains, profits, and income, of any nonresident  
 20 alien individual, or of any partnership not engaged in trade  
 21 or business within the United States and not having any  
 22 office or place of business therein and composed in whole or  
 23 in part of nonresident aliens (other than income received  
 24 as dividends of the class allowed as a credit by section  
 25 25 (a) ) shall (except in the cases provided for in subsection

1 (a) of this section and except as otherwise provided in regu-  
2 lations prescribed by the Commissioner under section 215  
3 214) deduct and withhold from such annual or periodical  
4 gains, profits, and income a tax equal to 8 per centum 4 per  
5 centum thereof: *Provided*, That the Commissioner may  
6 authorize such tax to be deducted and withheld from the  
7 interest upon any securities the owners of which are not  
8 known to the withholding agent.

9 (c) RETURN AND PAYMENT.—Every person required  
10 to deduct and withhold any tax under this section shall  
11 make return thereof on or before March 15 of each year and  
12 shall on or before June 15, in lieu of the time prescribed in  
13 section 56, pay the tax to the official of the United States  
14 Government authorized to receive it. Every such person is  
15 hereby made liable for such tax and is hereby indemnified  
16 against the claims and demands of any person for the amount  
17 of any payments made in accordance with the provisions  
18 of this section.

19 (d) INCOME OF RECIPIENT.—Income upon which  
20 any tax is required to be withheld at the source under  
21 this section shall be included in the return of the recipient of  
22 such income, but any amount of tax so withheld shall be  
23 credited against the amount of income tax as computed in  
24 such return.

1           (e) **TAX PAID BY RECIPIENT.**—If any tax required  
 2 under this section to be deducted and withheld is paid by  
 3 the recipient of the income, it shall not be re-collected from  
 4 the withholding agent; nor in cases in which the tax is so  
 5 paid shall any penalty be imposed upon or collected from  
 6 the recipient of the income or the withholding agent for  
 7 failure to return or pay the same, unless such failure was  
 8 fraudulent and for the purpose of evading payment,

9           (f) **REFUNDS AND CREDITS.**—Where there has been  
 10 an overpayment of tax under this section any refund or  
 11 credit made under the provisions of section 322 shall be made  
 12 to the withholding agent unless the amount of such tax was  
 13 actually withheld by the withholding agent.

14           (g) ~~Notwithstanding the provisions of subsections (a)~~  
 15 ~~and (h), the deduction and withholding for any period~~  
 16 ~~prior to the date of the enactment of this Act shall be at the~~  
 17 ~~rates of 19 per centum and 5 per centum in lieu of the~~  
 18 ~~rates of 18½ per centum and 8 per centum prescribed in~~  
 19 ~~such subsections.~~

20 **SEC. 144. PAYMENT OF CORPORATION INCOME TAX AT**  
 21 **SOURCE.**

22           In the case of foreign corporations subject to taxation  
 23 under this title not engaged in trade or business within the  
 24 United States and not having any office or place of business  
 25 therein, there shall be deducted and withheld at the source

1 in the same manner and upon the same items of income as is  
2 provided in section 143 a tax equal to 12 per centum  
3 thereof in respect of all payments of income made before the  
4 enactment of this Act, and equal to 13 $\frac{1}{4}$  per centum thereof in  
5 respect of all payments of income made after the enactment  
6 of this Act 13 $\frac{1}{4}$  per centum, and such tax shall be returned  
7 and paid in the same manner and subject to the same condi-  
8 tions as provided in that section: *Provided*, That in the case  
9 of interest described in subsection (a) of that section (relat-  
10 ing to tax-free covenant bonds) the deduction and withhold-  
11 ing shall be at the rate specified in such subsection.

12 **SEC. 145. PENALTIES.**

13 (a) Any person required under this title to pay any  
14 tax, or required by law or regulations made under authority  
15 thereof to make a return, keep any records, or supply any  
16 information, for the purposes of the computation, assessment,  
17 or collection of any tax imposed by this title, who willfully  
18 fails to pay such tax, make such return, keep such records,  
19 or supply such information, at the time or times required by  
20 law or regulations, shall, in addition to other penalties pro-  
21 vided by law, be guilty of a misdemeanor and, upon convic-  
22 tion thereof, be fined not more than \$10,000, or imprisoned  
23 for not more than one year, or both, together with the costs  
24 of prosecution.

1           (b) Any person required under this title to collect,  
2 account for, and pay over any tax imposed by this title, who  
3 willfully fails to collect or truthfully account for and pay over  
4 such tax, and any person who willfully attempts in any man-  
5 ner to evade or defeat any tax imposed by this title or the  
6 payment thereof, shall, in addition to other penalties pro-  
7 vided by law, be guilty of a felony and, upon conviction  
8 thereof, be fined not more than \$10,000, or imprisoned for  
9 not more than five years, or both, together with the costs of  
10 prosecution.

11           (c) The term "person" as used in this section includes  
12 an officer or employee of a corporation or a member or  
13 employee of a partnership, who as such officer, employee, or  
14 member is under a duty to perform the act in respect of  
15 which the violation occurs.

16 **SEC. 146. CLOSING BY COMMISSIONER OF TAXABLE YEAR.**

17           (a) **TAX IN JEOPARDY.**—If the Commissioner finds  
18 that a taxpayer designs quickly to depart from the United  
19 States or to remove his property therefrom, or to conceal  
20 himself or his property therein, or to do any other act tend-  
21 ing to prejudice or to render wholly or partly ineffectual  
22 proceedings to collect the tax for the taxable year then last  
23 past or the taxable year then current unless such proceedings  
24 be brought without delay, the Commissioner shall declare  
25 the taxable period for such taxpayer immediately terminated

1 and shall cause notice of such finding and declaration to be  
2 given the taxpayer, together with a demand for immediate  
3 payment of the tax for the taxable period so declared termi-  
4 nated and of the tax for the preceding taxable year or so  
5 much of such tax as is unpaid, whether or not the time  
6 otherwise allowed by law for filing return and paying the  
7 tax has expired; and such taxes shall thereupon become  
8 immediately due and payable. In any proceeding in court  
9 brought to enforce payment of taxes made due and payable  
10 by virtue of the provisions of this section the finding of the  
11 Commissioner, made as herein provided, whether made after  
12 notice to the taxpayer or not, shall be for all purposes  
13 presumptive evidence of the taxpayer's design.

14 (b) SECURITY FOR PAYMENT.—A taxpayer who is  
15 not in default in making any return or paying income, war-  
16 profits, or excess-profits tax under any Act of Congress may  
17 furnish to the United States, under regulations to be pre-  
18 scribed by the Commissioner, with the approval of the  
19 Secretary, security approved by the Commissioner that he  
20 will duly make the return next thereafter required to be  
21 filed and pay the tax next thereafter required to be paid.  
22 The Commissioner may approve and accept in like manner  
23 security for return and payment of taxes made due and  
24 payable by virtue of the provisions of this section, provided  
25 the taxpayer has paid in full all other income, war-profits,

1 or excess-profits taxes due from him under any Act of  
2 Congress.

3 (c) SAME—EXEMPTION FROM SECTION.—If secur-  
4 ity is approved and accepted pursuant to the provisions  
5 of this section and such further or other security with respect  
6 to the tax or taxes covered thereby is given as the Com-  
7 missioner shall from time to time find necessary and require,  
8 payment of such taxes shall not be enforced by any pro-  
9 ceedings under the provisions of this section prior to the  
10 expiration of the time otherwise allowed for paying such  
11 respective taxes.

12 (d) CITIZENS.—In the case of a citizen of the United  
13 States or of a possession of the United States about to depart  
14 from the United States the Commissioner may, at his discre-  
15 tion, waive any or all of the requirements placed on the  
16 taxpayer by this section.

17 (e) DEPARTURE OF ALIEN.—No alien shall depart  
18 from the United States unless he first procures from the col-  
19 lector or agent in charge a certificate that he has complied  
20 with all the obligations imposed upon him by the income,  
21 war-profits, and excess-profits tax laws.

22 (f) ADDITION TO TAX.—If a taxpayer violates or  
23 attempts to violate this section there shall, in addition to all  
24 other penalties, be added as part of the tax 25 per centum  
25 of the total amount of the tax or deficiency in the tax,

1 together with interest at the rate of 1 per centum a month  
2 from the time the tax became due.

3 **SEC. 147. INFORMATION AT SOURCE.**

4 (a) **PAYMENTS OF \$1,000 OR MORE.**—All persons, in  
5 whatever capacity acting, including lessees or mortgagors of  
6 real or personal property, fiduciaries, and employers, making  
7 payment to another person, of interest, rent, salaries, wages,  
8 premiums, annuities, compensations, remunerations, emolu-  
9 ments, or other fixed or determinable gains, profits, and  
10 income (other than payments described in section 148 (a)  
11 or 149), of \$1,000 or more in any taxable year, or,  
12 in the case of such payments made by the United  
13 States, the officers or employees of the United States having  
14 information as to such payments and required to make  
15 returns in regard thereto by the regulations hereinafter  
16 provided for, shall render a true and accurate return to the  
17 Commissioner, under such regulations and in such form  
18 and manner and to such extent as may be prescribed by  
19 him with the approval of the Secretary, setting forth the  
20 amount of such gains, profits, and income, and the name  
21 and address of the recipient of such payment.

22 (b) **RETURNS REGARDLESS OF AMOUNT OF PAY-**  
23 **MENT.**—Such returns may be required, regardless of  
24 amounts, (1) in the case of payments of interest upon bonds,  
25 mortgages, deeds of trust, or other similar obligations of cor-



1 porations, and (2) in the case of collections of items (not  
 2 payable in the United States) of interest upon the bonds of  
 3 foreign countries and interest upon the bonds of and divi-  
 4 dends from foreign corporations by persons undertaking as a  
 5 matter of business or for profit the collection of foreign pay-  
 6 ments of such interest or dividends by means of coupons,  
 7 checks, or bills of exchange.

8 (c) RECIPIENT TO FURNISH NAME AND ADDRESS.—

9 When necessary to make effective the provisions of this  
 10 section the name and address of the recipient of income  
 11 shall be furnished upon demand of the person paying the  
 12 income.

13 (d) OBLIGATIONS OF UNITED STATES.—The pro-  
 14 visions of this section shall not apply to the payment of  
 15 interest on obligations of the United States.

16 SEC. 148. INFORMATION BY CORPORATIONS.

17 (a) DIVIDEND PAYMENTS.—Every corporation sub-  
 18 ject to the tax imposed by this title shall, when required  
 19 by the Commissioner, render a correct return, duly verified  
 20 under oath, of its payments of dividends, stating the name  
 21 and address of each shareholder, the number of shares owned  
 22 by him, and the amount of dividends paid to him.

23 (b) PROFITS OF TAXABLE YEAR DECLARED AS  
 24 DIVIDENDS.—There shall be included in the return or  
 25 appended thereto a statement of such facts as will enable

1 the Commissioner to determine the portion of the earnings  
2 or profits of the corporation (including gains, profits, and  
3 income not taxed) accumulated during the taxable year for  
4 which the return is made, which have been distributed or  
5 ordered to be distributed, respectively, to its shareholders  
6 during such year.

7 (b) *PROFITS DECLARED AS DIVIDENDS.*—Every  
8 corporation shall, when required by the Commissioner,  
9 furnish him a statement of such facts as will enable him to  
10 determine the portion of the earnings or profits of the cor-  
11 poration (including gains, profits, and income not taxed)  
12 accumulated during such periods as the Commissioner may  
13 specify, which have been distributed or ordered to be dis-  
14 tributed, respectively, to its shareholders during such taxable  
15 years as the Commissioner may specify.

16 (c) *ACCUMULATED GAINS AND PROFITS.*—When  
17 requested by the Commissioner, or any collector, every cor-  
18 poration shall forward to him a correct statement of accu-  
19 mulated gains and profits and the names and addresses of the  
20 individuals or shareholders who would be entitled to the  
21 same if divided or distributed, and of the amounts that would  
22 be payable to each.

23 **SEC. 149. RETURNS OF BROKERS.**

24 Every person doing business as a broker shall, when  
25 required by the Commissioner, render a correct return duly  
26 verified under oath, under such rules and regulations as the

1 Commissioner, with the approval of the Secretary, may  
2 prescribe, showing the names of customers for whom such  
3 person has transacted any business, with such details as to  
4 the profits, losses, or other information which the Commis-  
5 sioner may require, as to each of such customers, as will  
6 enable the Commissioner to determine whether all income  
7 tax due on profits or gains of such customers has been paid.

8 **SEC. 150. COLLECTION OF FOREIGN ITEMS.**

9 All persons undertaking as a matter of business or for  
10 profit the collection of foreign payments of interest or divi-  
11 dends by means of coupons, checks, or bills of exchange  
12 shall obtain a license from the Commissioner and shall be  
13 subject to such regulations enabling the Government to  
14 obtain the information required under this title as the Com-  
15 missioner, with the approval of the Secretary, shall prescribe;  
16 and whoever knowingly undertakes to collect such payments  
17 without having obtained a license therefor, or without com-  
18 plying with such regulations, shall be guilty of a misde-  
19 meanor and shall be fined not more than \$5,000 or  
20 imprisoned for not more than one year, or both.

21 **Supplement E—Estates, and Trusts**

22 **SEC. 161. IMPOSITION OF TAX.**

23 (a) **APPLICATION OF TAX.**—The taxes imposed by  
24 this title upon individuals shall apply to the income of estates  
25 or of any kind of property held in trust, including—

1           (1) Income accumulated in trust for the benefit  
2 of unborn or unascertained persons or persons with  
3 contingent interests, and income accumulated or held  
4 for future distribution under the terms of the will or  
5 trust;

6           (2) Income which is to be distributed currently  
7 by the fiduciary to the beneficiaries, and income col-  
8 lected by a guardian of an infant which is to be held  
9 or distributed as the court may direct;

10           (3) Income received by estates of deceased per-  
11 sons during the period of administration or settlement  
12 of the estate; and

13           (4) Income which, in the discretion of the fidu-  
14 ciary, may be either distributed to the beneficiaries or  
15 accumulated.

16           (b) COMPUTATION AND PAYMENT.—The tax shall be  
17 computed upon the net income of the estate or trust, and  
18 shall be paid by the fiduciary, except as provided in section  
19 166 (relating to revocable trusts) and section 167 (relat-  
20 ing to income for benefit of the grantor). For return made  
21 by beneficiary, see section 142.

22 **SEC. 162. NET INCOME.**

23           The net income of the estate or trust shall be computed  
24 in the same manner and on the same basis as in the case of  
25 an individual, except that—

1           (a) There shall be allowed as a deduction (in lieu of  
2 the deduction for charitable, etc., contributions authorized  
3 by section 23(~~n~~)(o)) any part of the gross income, without  
4 limitation, which pursuant to the terms of the will or deed  
5 creating the trust, is during the taxable year paid or per-  
6 manently set aside for the purposes and in the manner speci-  
7 fied in section 23(~~n~~)(o), or is to be used exclusively for  
8 religious, charitable, scientific, literary, or educational pur-  
9 poses, or for the prevention of cruelty to children or animals,  
10 or for the establishment, acquisition, maintenance or opera-  
11 tion of a public cemetery not operated for profit;

12           (b) There shall be allowed as an additional deduc-  
13 tion in computing the net income of the estate or trust the  
14 amount of the income of the estate or trust for its taxable  
15 year which is to be distributed currently by the fiduciary  
16 to the beneficiaries, and the amount of the income collected  
17 by a guardian of an infant which is to be held or distributed  
18 as the court may direct, but the amount so allowed as a  
19 deduction shall be included in computing the net income of  
20 the beneficiaries whether distributed to them or not. Any  
21 amount allowed as a deduction under this paragraph shall not  
22 be allowed as a deduction under subsection (c) of this section  
23 in the same or any succeeding taxable year;

24           (c) In the case of income received by estates of  
25 deceased persons during the period of administration for

1 settlement of the estate, and in the case of income which,  
2 in the discretion of the fiduciary, may be either distributed  
3 to the beneficiary or accumulated, there shall be allowed  
4 as an additional deduction in computing the net income  
5 of the estate or trust the amount of the income of the estate  
6 or trust for its taxable year, which is properly paid or  
7 credited during such year to any legatee, heir, or beneficiary,  
8 but the amount so allowed as a deduction shall be included  
9 in computing the net income of the legatee, heir, or bene-  
10 ficiary.

11 **SEC. 163. CREDITS AGAINST NET INCOME.**

12 (a) **CREDITS OF ESTATE OR TRUST.**—For the purpose  
13 of the normal tax *and the surtax* the estate or trust shall be  
14 allowed the same personal exemption as is allowed to a single  
15 person under section ~~25(e)~~ 25(b)(1), and, if no part of the  
16 income of the estate or trust is included in computing the net  
17 income of any legatee, heir, or beneficiary, then in addition  
18 the same credits against net income for dividends and interest  
19 as are allowed by section 25 (a) and ~~(b)~~.

20 (b) **CREDITS OF BENEFICIARY.**—If any part of the  
21 income of an estate or trust is included in computing the  
22 net income of any legatee, heir, or beneficiary, such legatee,  
23 heir, or beneficiary shall, for the purpose of the normal tax,  
24 be allowed as credits against net income, in addition to  
25 the credits allowed to him under section 25, his propor-

1 tionate share of such amounts of dividends and interest  
2 specified in section 25 (a) and ~~(b)~~ as are, under this Sup-  
3 plement, required to be included in computing his net  
4 income. Any remaining portion of such amounts specified  
5 in section 25 (a) and ~~(b)~~ shall, for the purpose of the  
6 normal tax, be allowed as credits to the estate or trust.

7 **SEC. 164. DIFFERENT TAXABLE YEARS.**

8 If the taxable year of a beneficiary is different from  
9 that of the estate or trust, the amount which he is required,  
10 under section 162 (b), to include in computing his net  
11 income, shall be based upon the income of the estate or  
12 trust for any taxable year of the estate or trust (*whether*  
13 *beginning on, before, or after January 1, 1934*) ending  
14 within his taxable year.

15 **SEC. 165. EMPLOYEES' TRUSTS.**

16 A trust created by an employer as a part of a stock  
17 bonus, pension, or profit-sharing plan for the exclusive  
18 benefit of some or all of his employees, to which contribu-  
19 tions are made by such employer, or employees, or both, for  
20 the purpose of distributing to such employees the earnings  
21 and principal of the fund accumulated by the trust in accord-  
22 ance with such plan, shall not be taxable under section 161,  
23 but the amount actually distributed or made available to  
24 any distributee shall be taxable to him in the year in which  
25 so distributed or made available to the extent that it exceeds

1 the amounts paid in by him. Such distributees shall for  
2 the purpose of the normal tax be allowed as credits against  
3 net income such part of the amount so distributed or made  
4 available as represents the items of dividends and interest  
5 specified in section 25 (a) and ~~(b)~~.

6 **SEC. 166. REVOCABLE TRUSTS.**

7 Where at any time during the taxable year the power  
8 to revert in the grantor title to any part of the corpus of  
9 the trust is vested—

10 (1) in the grantor, either alone or in conjunction  
11 with any person not having a substantial adverse  
12 interest in the disposition of such part of the corpus or  
13 the income therefrom, or

14 (2) in any person not having a substantial  
15 adverse interest in the disposition of such part of the  
16 corpus or the income therefrom,

17 then the income of such part of the trust for such taxable  
18 year shall be included in computing the net income of the  
19 grantor.

20 **SEC. 167. INCOME FOR BENEFIT OF GRANTOR.**

21 (a) Where any part of the income of a trust—

22 (1) is, or in the discretion of the grantor or of  
23 any person not having a substantial adverse interest in  
24 the disposition of such part of the income may be, held  
25 or accumulated for future distribution to the grantor; or



1           (2) may, in the discretion of the grantor or of  
2 any person not having a substantial adverse interest in  
3 the disposition of such part of the income, be distributed  
4 to the grantor; or

5           (3) is, or in the discretion of the grantor or of  
6 any person not having a substantial adverse interest in  
7 the disposition of such part of the income may be,  
8 applied to the payment of premiums upon policies of  
9 insurance on the life of the grantor (except policies of  
10 insurance irrevocably payable for the purposes and in  
11 the manner specified in section 23 ~~(n)~~ (o), relating to  
12 the so-called "charitable contribution" deduction);

13 then such part of the income of the trust shall be included  
14 in computing the net income of the grantor.

15           (b) As used in this section, the term "in the discre-  
16 tion of the grantor" means "in the discretion of the grantor,  
17 either alone or in conjunction with any person not having  
18 a substantial adverse interest in the disposition of the part  
19 of the income in question".

20 **SEC. 168. CAPITAL NET GAINS AND LOSSES.**

21           In the case of an estate or trust, or of a beneficiary of  
22 an estate or trust, the proper part of each share of the net  
23 income which consists, respectively, of ordinary net income,  
24 capital net gain, or capital net loss, shall be determined  
25 under rules and regulations to be prescribed by the Com-

1 missioner with the approval of the Secretary, and shall be  
2 separately shown in the return of the estate or trust, and  
3 shall be taxed to the beneficiary or to the estate or trust as  
4 provided in this Supplement, but at the rates and in the  
5 manner provided in section 101(a) and (b), relating to  
6 capital net gains and losses.

7 **SEC. 170 163. TAXES OF FOREIGN COUNTRIES AND POSSES-**  
8 **SIONS OF UNITED STATES.**

9 The amount of income, war-profits, and excess-profits  
10 taxes imposed by foreign countries or possessions of the  
11 United States shall be allowed as credit against the tax of the  
12 beneficiary of an estate or trust to the extent provided in  
13 section 131.

14 **Supplement F—Partnerships**

15 **SEC. 181. PARTNERSHIP NOT TAXABLE.**

16 Individuals carrying on business in partnership shall be  
17 liable for income tax only in their individual capacity.

18 **SEC. 182. TAX OF PARTNERS.**

19 (a) **GENERAL RULE.**—There shall be included in com-  
20 puting the net income of each partner his distributive share,  
21 whether distributed or not, of the net income of the partner-  
22 ship for the taxable year. If the taxable year of a partner  
23 is different from that of the partnership, the amount so  
24 included shall be based upon the income of the partnership  
25 for any taxable year of the partnership ending within his

1 taxable year. No part of any loss disallowed to a partnership  
2 as a deduction by section 23-(r) shall be allowed as a deduc-  
3 tion to a member of such partnership in computing net  
4 income.

5 (b) PARTNERSHIP YEAR EMBRACING CALENDAR  
6 YEARS WITH DIFFERENT LAWS.—If a fiscal year of a part-  
7 nership begins in one calendar year and ends in another  
8 calendar year, and the law applicable to the second calendar  
9 year is different from the law applicable to the first calendar  
10 year, then

11 (1) the rates for the calendar year during which  
12 such fiscal year begins shall apply to an amount of each  
13 partner's share of such partnership net income (deter-  
14 mined under the law applicable to such calendar year)  
15 equal to the proportion which the part of such fiscal  
16 year falling within such calendar year bears to the full  
17 fiscal year, and

18 (2) the rates for the calendar year during which  
19 such fiscal year ends shall apply to an amount of each  
20 partner's share of such partnership net income (deter-  
21 mined under the law applicable to such calendar year)  
22 equal to the proportion which the part of such fiscal  
23 year falling within such calendar year bears to the full  
24 fiscal year,

1 In such cases the part of such income subject to the rates in  
2 effect for the most recent calendar year shall be added to  
3 the other income of the taxpayer subject to such rates and  
4 the resulting amount shall be placed in the lower brackets  
5 of the rate schedule applicable to such year, and the part  
6 of such income subject to the rates in effect for the next  
7 preceding calendar year shall be placed in the next higher  
8 brackets of the rate schedule applicable to such year.

9 **SEC. 183. COMPUTATION OF PARTNERSHIP INCOME.**

10 The net income of the partnership shall be computed  
11 in the same manner and on the same basis as in the case  
12 of an individual, ~~except that the so-called "charitable con-~~  
13 ~~tribution" deduction provided in section 23 (n) shall not~~  
14 ~~be allowed.~~

15 **SEC. 184. CREDITS AGAINST NET INCOME.**

16 The partner shall, for the purpose of the normal tax,  
17 be allowed as a credit against his net income, in addition  
18 to the credits allowed to him under section 25, his propor-  
19 tionate share of such amounts (*not in excess of the net in-*  
20 *come of the partnership*) of dividends and interest specified  
21 in section 25 (a) and ~~(b)~~ as are received by the partnership.

22 **SEC. 185. EARNED INCOME.**

23 In the case of the members of a partnership the proper  
24 part of each share of the net income which consists of  
25 earned income shall be determined under rules and regula-

1 tions to be prescribed by the Commissioner with the approval  
2 of the Secretary and shall be separately shown in the return  
3 of the partnership and shall be taxed to the member as  
4 provided in this Supplement.

5 **SEC. 186. CAPITAL NET GAINS AND LOSSES.**

6 In the case of the members of a partnership the proper  
7 part of each share of the net income which consists, respec-  
8 tively, of ordinary net income, capital net gain, or capital  
9 net loss, shall be determined under the rules and regulations  
10 to be prescribed by the Commissioner with the approval  
11 of the Secretary, and shall be separately shown in the  
12 return of the partnership and shall be taxed to the member  
13 as provided in this Supplement, but at the rates and in  
14 the manner provided in section 101(a) and (b), relating  
15 to capital net gains and losses.

16 **SEC. 188 186. TAXES OF FOREIGN COUNTRIES AND POSSES-**  
17 **SIONS OF UNITED STATES.**

18 The amount of income, war-profits, and excess-profits  
19 taxes imposed by foreign countries or possessions of the  
20 United States shall be allowed as a credit against the tax  
21 of the member of a partnership to the extent provided in  
22 section 131.

23 **SEC. 189 187. PARTNERSHIP RETURNS.**

24 Every partnership shall make a return for each taxable  
25 year, stating specifically the items of its gross income and

1 the deductions allowed by this title, and shall include in the  
2 return the names and addresses of the individuals who would  
3 be entitled to share in the net income if distributed and the  
4 amount of the distributive share of each individual. The  
5 return shall be sworn to by any one of the partners.

6 **SEC. 188. DIFFERENT TAXABLE YEARS OF PARTNER AND**  
7 **PARTNERSHIP.**

8 (a) *GENERAL RULE.*—If the taxable year of a  
9 partner is different from that of the partnership, the distribu-  
10 tive share of the net income of the partnership to be included  
11 in computing the net income of the partner for his taxable  
12 year shall be based upon the net income of the partnership  
13 for any taxable year of the partnership (whether beginning  
14 on, before, or after January 1, 1934) ending within the  
15 taxable year of the partner.

16 (b) *PARTNERSHIP YEARS BEGINNING IN 1933.*—  
17 For the purpose of computing the net income of a partner  
18 for a taxable year beginning after December 31, 1933, the  
19 partnership net income for any taxable year of the partner-  
20 ship beginning before January 1, 1934, shall be computed  
21 under the Revenue Act of 1932, without regard to sections  
22 101 and 186 thereof (relating to capital net gain and capital  
23 net loss) but as if section 117 of this Act (except subsection  
24 (d) thereof) had formed a part of Title I of the Revenue  
25 Act of 1932.

1                   **Supplement G—Insurance Companies**

2   **SEC. 201. TAX ON LIFE INSURANCE COMPANIES.**

3           (a) **DEFINITION.**—When used in this title the term  
4 “life insurance company” means an insurance company  
5 fulfillment of such contracts comprise more than 50 per  
6 engaged in the business of issuing life insurance and annuity  
7 contracts (including contracts of combined life, health, and  
8 accident insurance), the reserve funds of which held for the  
9 centum of its total reserve funds.

10          (b) **RATE OF TAX.**—In lieu of the tax imposed by  
11 section 13, there shall be levied, collected, and paid for each  
12 taxable year upon the net income of every life insurance  
13 company a tax as follows:

14               (1) In the case of a domestic life insurance  
15 company, 13½ per centum of its net income;

16               (2) In the case of a foreign life insurance  
17 company, 13½ per centum of its net income from  
18 sources within the United States.

19   *(For addition to rate in case of consolidated returns, see*  
20 *section 141.)*

21   **SEC. 202. GROSS INCOME OF LIFE INSURANCE COMPANIES.**

22          (a) In the case of a life insurance company the term  
23 “gross income” means the gross amount of income received  
24 during the taxable year from interest, dividends, and rents.

1           (b) The term "reserve funds required by law"  
 2 includes, in the case of assessment insurance, sums actually  
 3 deposited by any company or association with State or Ter-  
 4 ritorial officers pursuant to law as guaranty or reserve funds,  
 5 and any funds maintained under the charter or articles of  
 6 incorporation of the company or association exclusively for  
 7 the payment of claims arising under certificates of member-  
 8 ship or policies issued upon the assessment plan and not  
 9 subject to any other use.

10 **SEC. 203. NET INCOME OF LIFE INSURANCE COMPANIES.**

11           (a) **GENERAL RULE.**—In the case of a life insurance  
 12 company the term "net income" means the gross income  
 13 less—

14           (1) **TAX-FREE INTEREST.**—The amount of inter-  
 15 est received during the taxable year which under section  
 16 ~~22(b)~~ *is exempt 22(b)(4) is exempt to a corporation*  
 17 from the taxes imposed by this title;

18           (2) **RESERVE FUNDS.**—An amount equal to 4  
 19 per centum of the mean of the reserve funds required by  
 20 law and held at the beginning and end of the taxable  
 21 year, except that in the case of any such reserve fund  
 22 which is computed at a lower interest assumption rate,  
 23 the rate of  $3\frac{1}{4}$  per centum shall be substituted for 4 per  
 24 centum. Life insurance companies issuing policies cov-  
 25 ering life, health, and accident insurance combined in



1 one policy issued on the weekly premium payment plan,  
 2 continuing for life and not subject to cancellation, shall  
 3 be allowed, in addition to the above, a deduction of 3½  
 4 per centum of the mean of such reserve funds (not  
 5 required by law) held at the beginning and end of the  
 6 taxable year, as the Commissioner finds to be necessary  
 7 for the protection of the holders of such policies only;

8 (3) DIVIDENDS.—The amount received as divi-  
 9 dends ~~(A)~~ from a domestic corporation which is  
 10 subject to taxation under this title, other than a corpora-  
 11 tion entitled to the benefits of section 251, and other  
 12 than a corporation organized under the China Trade  
 13 Act, 1922, or ~~(B)~~ from any foreign corporation when  
 14 it is shown to the satisfaction of the Commissioner  
 15 that more than 50 per centum of the gross income of  
 16 such foreign corporation for the three-year period  
 17 ending with the close of its taxable year preceding the  
 18 declaration of such dividends (or for such part of such  
 19 period as the foreign corporation has been in existence)  
 20 was derived from sources within the United States as  
 21 determined under section ~~140~~;

22 (4) RESERVE FOR DIVIDENDS.—An amount  
 23 equal to 2 per centum of any sums held at the end of  
 24 the taxable year as a reserve for dividends (other than  
 25 dividends payable during the year following the taxable

1 year) the payment of which is deferred for a period  
2 of not less than five years from the date of the policy  
3 contract;

4 (5) **INVESTMENT EXPENSES.**—Investment ex-  
5 penses paid during the taxable year: *Provided*, That  
6 if any general expenses are in part assigned to or  
7 included in the investment expenses, the total deduc-  
8 tion under this paragraph shall not exceed one-fourth  
9 of 1 per centum of the book value of the mean of the  
10 invested assets held at the beginning and end of the  
11 taxable year;

12 (6) **REAL ESTATE EXPENSES.**—Taxes and other  
13 expenses paid during the taxable year exclusively upon  
14 or with respect to the real estate owned by the com-  
15 pany, not including taxes assessed against local bene-  
16 fits of a kind tending to increase the value of the prop-  
17 erty assessed, and not including any amount paid out  
18 for new buildings, or for permanent improvements or  
19 betterments made to increase the value of any property.  
20 The deduction allowed by this paragraph shall be  
21 allowed in the case of taxes imposed upon a shareholder  
22 of a company upon his interest as shareholder, which  
23 are paid by the company without reimbursement from  
24 the shareholder, but in such cases no deduction shall be  
25 allowed the shareholder for the amount of such taxes;

1           (7) DEPRECIATION.—A reasonable allowance,  
2       *as provided in section 23(l)*, for the exhaustion, wear  
3       and tear of property, including a reasonable allowance  
4       for obsolescence; and

5           (8) INTEREST.—All interest paid or accrued  
6       within the taxable year on its indebtedness, except on  
7       indebtedness incurred or continued to purchase or carry,  
8       *or the proceeds of which were used to purchase or carry*,  
9       obligations or securities (other than obligations of the  
10      United States issued after September 24, 1917, and  
11      originally subscribed for by the taxpayer) the interest  
12      upon which is wholly exempt from taxation under this  
13      title.

14          (b) RENTAL VALUE OF REAL ESTATE.—The deduc-  
15      tion under subsection (a) (6) or (7) of this section on  
16      account of any real estate owned and occupied in whole or  
17      in part by a life insurance company, shall be limited to an  
18      amount which bears the same ratio to such deduction (com-  
19      puted without regard to this subsection) as the rental value  
20      of the space not so occupied bears to the rental value of the  
21      entire property.

22          (c) FOREIGN LIFE INSURANCE COMPANIES.—In the  
23      case of a foreign life insurance company the amount of its  
24      net income for any taxable year from sources within the  
25      United States shall be the same proportion of its net income

1 for the taxable year from sources within and without the  
 2 United States, which the reserve funds required by law and  
 3 held by it at the end of the taxable year upon business  
 4 transacted within the United States is of the reserve funds  
 5 held by it at the end of the taxable year upon all business  
 6 transacted.

7 **SEC. 204. INSURANCE COMPANIES OTHER THAN LIFE OR**  
 8 **MUTUAL.**

9 (a) **IMPOSITION OF TAX.**—In lieu of the tax imposed  
 10 by section 13 of this title, there shall be levied, collected,  
 11 and paid for each taxable year upon the net income of every  
 12 insurance company (other than a life or mutual insurance  
 13 company) a tax as follows:

14 (1) In the case of such a domestic insurance com-  
 15 pany,  $13\frac{1}{2}$  per centum of its net income;

16 (2) In the case of such a foreign insurance com-  
 17 pany,  $13\frac{1}{2}$  per centum of its net income from sources  
 18 within the United States.

19 (*For addition to rate in case of consolidated returns,*  
 20 *see section 141.*)

21 (b) **DEFINITION OF INCOME, ETC.**—In the case of an  
 22 insurance company subject to the tax imposed by this  
 23 section—

24 (1) **GROSS INCOME.**—“Gross income” means  
 25 the sum of (A) the combined gross amount earned

1 during the taxable year, from investment income and  
2 from underwriting income as provided in this subsection,  
3 computed on the basis of the underwriting and invest-  
4 ment exhibit of the annual statement approved by the  
5 National Convention of Insurance Commissioners, and  
6 (B) gain during the taxable year from the sale or other  
7 disposition of property, and (C) all other items  
8 constituting gross income under section 22;

9 (2) NET INCOME.—“Net income” means the  
10 gross income as defined in paragraph (1) of this sub-  
11 section less the deductions allowed by subsection (c) of  
12 this section;

13 (3) INVESTMENT INCOME.—“Investment in-  
14 come” means the gross amount of income earned  
15 during the taxable year from interest, dividends, and  
16 rents, computed as follows:

17 To all interest, dividends and rents received dur-  
18 ing the taxable year, add interest, dividends, and rents  
19 due and accrued at the end of the taxable year, and  
20 deduct all interest, dividends and rents due and accrued  
21 at the end of the preceding taxable year;

22 (4) UNDERWRITING INCOME.—“Underwriting  
23 income” means the premiums earned on insurance con-  
24 tracts during the taxable year less losses incurred and  
25 expenses incurred;

1           (5) **PREMIUMS EARNED.**—"Premiums earned  
2 on insurance contracts during the taxable year" means  
3 an amount computed as follows:

4           From the amount of gross premiums written on  
5 insurance contracts during the taxable year, deduct  
6 return premiums and premiums paid for reinsurance.  
7 To the result so obtained add unearned premiums on  
8 outstanding business at the end of the preceding taxable  
9 year and deduct unearned premiums on outstanding  
10 business at the end of the taxable year;

11           (6) **LOSSES INCURRED.**—"Losses incurred"  
12 means losses incurred during the taxable year on insur-  
13 ance contracts, computed as follows:

14           To losses paid during the taxable year, add sal-  
15 vage and reinsurance recoverable outstanding at the  
16 end of the preceding taxable year, and deduct salvage  
17 and reinsurance recoverable outstanding at the end  
18 of the taxable year. To the result so obtained add  
19 all unpaid losses outstanding at the end of the taxable  
20 year and deduct unpaid losses outstanding at the end  
21 of the preceding taxable year;

22           (7) **EXPENSES INCURRED.**—"Expenses incurred"  
23 means all expenses shown on the annual statement  
24 approved by the National Convention of Insurance  
25 Commissioners, and shall be computed as follows;

1           To all expenses paid during the taxable year add  
 2           expenses unpaid at the end of the taxable year and  
 3           deduct expenses unpaid at the end of the preceding  
 4           taxable year. For the purpose of computing the net  
 5           income subject to the tax imposed by this section there  
 6           shall be deducted from expenses incurred as defined  
 7           in this paragraph all expenses incurred which are not  
 8           allowed as deductions by subsection (c) of this section.

9           **(c) DEDUCTIONS ALLOWED.**—In computing the net  
 10          income of an insurance company subject to the tax imposed  
 11          by this section there shall be allowed as deductions:

12                 (1) All ordinary and necessary expenses  
 13                 incurred, as provided in section 23 (a) ;

14                 (2) All interest as provided in section 23 (b) ;

15                 (3) Taxes as provided in section 23 (c) ;

16                 (4) Losses incurred as defined in subsection  
 17                 (b) (6) of this section;

18                 (5) *Losses Subject to the limitation contained in*  
 19                 *section 117(d), losses* sustained during the taxable year  
 20                 from the sale or other disposition of property;

21                 (6) Bad debts in the nature of agency balances  
 22                 and bills receivable ascertained to be worthless and  
 23                 charged off within the taxable year;

24                 (7) The amount received as dividends from cor-  
 25                 porations as provided in section 23 (p) ;

1           (8) The amount of interest earned during the  
2 taxable year which under section 22 (b) (4) is exempt  
3 to a corporation from the taxes imposed by this  
4 title, ~~and the amount of interest allowed as a credit~~  
5 ~~under section 26;~~

6           (9) A reasonable allowance for the exhaustion,  
7 wear and tear of property, as provided in section  
8 23-~~(k)~~(l).

9           (d) DEDUCTIONS OF FOREIGN CORPORATIONS.—In  
10 the case of a foreign corporation the deductions allowed in  
11 this section shall be allowed to the extent provided in  
12 Supplement I.

13           (e) DOUBLE DEDUCTIONS.—Nothing in this section  
14 shall be construed to permit the same item to be twice  
15 deducted.

16 **SEC. 206 205. TAXES OF FOREIGN COUNTRIES AND POSSES-**  
17 **SIONS OF UNITED STATES.**

18           The amount of income, war-profits, and excess-profits  
19 taxes imposed by foreign countries or possessions of the  
20 United States shall be allowed as a credit against the tax of  
21 a domestic insurance company subject to the tax imposed by  
22 section 201 or 204, to the extent provided in the case of a  
23 domestic corporation in section 131, and in such cases "net  
24 income" as used in that section means the net income as  
25 defined in this Supplement.



1 **SEC. ~~207~~ 206. COMPUTATION OF GROSS INCOME.**

2 The gross income of insurance companies subject to the  
3 tax imposed by section 201 or 204 shall not be determined  
4 in the manner provided in section 119.

5 **SEC. ~~208~~ 207. MUTUAL INSURANCE COMPANIES OTHER**  
6 **THAN LIFE.**

7 (a) **APPLICATION OF TITLE.**—Mutual insurance  
8 companies, other than life insurance companies, shall be  
9 taxable in the same manner as other corporations, except as  
10 hereinafter provided in this section.

11 (b) **GROSS INCOME.**—Mutual marine-insurance com-  
12 panies shall include in gross income the gross premiums  
13 collected and received by them less amounts paid for  
14 reinsurance.

15 (c) **DEDUCTIONS.**—In addition to the deductions  
16 allowed to corporations by section 23 the following deduc-  
17 tions to insurance companies shall also be allowed, unless  
18 otherwise allowed—

19 (1) **MUTUAL INSURANCE COMPANIES OTHER**  
20 **THAN LIFE INSURANCE.**—In the case of mutual insur-  
21 ance companies other than life insurance companies—

22 (A) the net addition required by law to be  
23 made within the taxable year to reserve funds  
24 (including in the case of assessment insurance

1            companies the actual deposit of sums with State  
2            or Territorial officers pursuant to law as additions  
3            to guarantee or reserve funds) ; and

4            (B) the sums other than dividends paid  
5            within the taxable year on policy and annuity  
6            contracts.

7            (2) **MUTUAL MARINE INSURANCE COM-**  
8            **PANIES.**—In the case of mutual marine insurance com-  
9            panies, in addition to the deductions allowed in para-  
10            graph (1) of this subsection, unless otherwise allowed,  
11            amounts repaid to policyholders on account of pre-  
12            miums previously paid by them, and interest paid upon  
13            such amounts between the ascertainment and the  
14            payment thereof;

15            (3) **MUTUAL INSURANCE COMPANIES OTHER**  
16            **THAN LIFE AND MARINE.**—In the case of mutual insur-  
17            ance companies (including interinsurers and reciprocal  
18            underwriters, but not including mutual life or mutual  
19            marine insurance companies) requiring their members  
20            to make premium deposits to provide for losses and  
21            expenses, the amount of premium deposits returned to  
22            their policyholders and the amount of premium deposits  
23            retained for the payment of losses, expenses, and  
24            reinsurance reserves,

## 1 Supplement H—Nonresident Alien Individuals

2 **SEC. 21. NORMAL TAX.**

3 ~~(a) GENERAL RULE.~~—In the case of a nonresident  
4 alien individual who is not a resident of a contiguous country,  
5 the normal tax shall be 8 per centum of the amount of the  
6 net income in excess of the credits against net income  
7 allowed to such individual.

8 ~~(b) ALIENS RESIDENT IN CONTIGUOUS COUN-~~  
9 ~~TRIES.~~—In the case of an alien individual resident in a  
10 contiguous country, the normal tax shall be an amount  
11 equal to the sum of the following:

12 ~~(1)~~ 4 per centum of the amount by which the  
13 part of the net income attributable to wages, salaries,  
14 professional fees, or other amounts received as compen-  
15 sation for personal services actually performed in the  
16 United States, exceeds the personal exemption and  
17 credit for dependents; but the amount taxable at such  
18 4 per centum rate shall not exceed \$4,000; and

19 ~~(2)~~ 8 per centum of the amount of the net income  
20 in excess of the sum of ~~(A)~~ the amount taxed under  
21 paragraph ~~(1)~~ of this subsection plus ~~(B)~~ the total  
22 credits against net income allowed to such individual;

23 ~~(c) IN LIEU OF NORMAL TAX UNDER SECTION 11.~~—

24 The tax imposed by this section shall be in lieu of the normal  
25 tax imposed by section 11.

**1 SEC. 211. GROSS INCOME.**

**2 (a) GENERAL RULE.**—In the case of a nonresident  
**3 alien individual gross income includes only the gross income**  
**4 from sources within the United States.**

**5 (b) SHIPS UNDER FOREIGN FLAG.**—The income of a  
**6 nonresident alien individual which consists exclusively of**  
**7 earnings derived from the operation of a ship or ships docu-**  
**8 mented under the laws of a foreign country which grants an**  
**9 equivalent exemption to citizens of the United States and to**  
**10 corporations organized in the United States, shall not be**  
**11 included in gross income and shall be exempt from taxation**  
**12 under this title.**

**13 SEC. 212. DEDUCTIONS.**

**14 (a) GENERAL RULE.**—In the case of a nonresident  
**15 alien individual the deductions shall be allowed only if and to**  
**16 the extent that they are connected with income from sources**  
**17 within the United States; and the proper apportionment and**  
**18 allocation of the deductions with respect to sources of income**  
**19 within and without the United States shall be determined as**  
**20 provided in section 119, under rules and regulations pre-**  
**21 scribed by the Commissioner with the approval of the**  
**22 Secretary.**

**23 (b) LOSSES.**—

**24 (1) The deduction, for losses not connected with**  
**25 the trade or business if incurred in transactions entered**

1 into for profit, allowed by section 23 (e) (2) shall be  
 2 allowed whether or not connected with income from  
 3 sources within the United States, but only if the profit,  
 4 if such transaction had resulted in a profit, would be  
 5 taxable under this title.

6 (2) The deduction for losses of property not con-  
 7 nected with the trade or business if arising from certain  
 8 casualties or theft, allowed by section 23 (e) (3), shall  
 9 be allowed whether or not connected with income from  
 10 sources within the United States, but only if the loss  
 11 is of property within the United States.

12 (c) CHARITABLE, ETC., CONTRIBUTIONS.—The so-  
 13 called “charitable contribution” deduction allowed by  
 14 section 23~~(a)~~(o) shall be allowed whether or not connected  
 15 with income from sources within the United States, but only  
 16 as to contributions or gifts made to domestic corporations,  
 17 or to community chests, funds, or foundations, created in the  
 18 United States, or to the vocational rehabilitation fund.

19 **SEC. ~~214~~ 213. CREDITS AGAINST NET INCOME.**

20 In the case of a nonresident alien individual the  
 21 personal exemption allowed by section ~~25(e)~~ 25(b)(1) of  
 22 this title shall be only \$1,000. The credit for dependents  
 23 allowed by section ~~25(d)~~ 25(b)(2) shall not be allowed  
 24 in the case of a nonresident alien individual unless he is a  
 25 resident of a contiguous country.

1 **SEC. 215 214. ALLOWANCE OF DEDUCTIONS AND CREDITS.**

2 (a) **RETURN TO CONTAIN INFORMATION.**—A non-  
3 resident alien individual shall receive the benefit of the  
4 deductions and credits allowed to him in this title only by  
5 filing or causing to be filed with the collector a true and  
6 accurate return of his total income received from all sources  
7 in the United States, in the manner prescribed in this title;  
8 including therein all the information which the Commis-  
9 sioner may deem necessary for the calculation of such  
10 deductions and credits.

11 (b) **TAX WITHHELD AT SOURCE.**—The benefit of the  
12 personal exemption and credit for dependents, and of the  
13 ~~reduced rate of tax provided for in section 211(b)~~, may, in  
14 the discretion of the Commissioner and under regulations  
15 prescribed by him with the approval of the Secretary, be  
16 received by a nonresident alien individual entitled thereto,  
17 by filing a claim therefor with the withholding agent.

18 **SEC. 216 215. CREDITS AGAINST TAX.**

19 A nonresident alien individual shall not be allowed the  
20 credits against the tax for taxes of foreign countries and  
21 possessions of the United States allowed by section 131.

22 **SEC. 217 216. RETURNS.**

23 In the case of a nonresident alien individual the return,  
24 in lieu of the time prescribed in section 53 (a) (1), shall  
25 be made on or before the fifteenth day of the sixth month

1 following the close of the fiscal year, or, if the return is  
2 made on the basis of the calendar year, then on or before  
3 the fifteenth day of June.

4 **SEC. 218 217. PAYMENT OF TAX.**

5 (a) **TIME OF PAYMENT.**—In the case of a nonresident  
6 alien individual the total amount of tax imposed by this  
7 title shall be paid, in lieu of the time prescribed in section  
8 56 (a), on the fifteenth day of June following the close of  
9 the calendar year, or, if the return should be made on  
10 the basis of a fiscal year, then on the fifteenth day of the  
11 sixth month following the close of the fiscal year.

12 (b) **WITHHOLDING AT SOURCE.**—For withholding at  
13 source of tax on income of nonresident aliens, see section  
14 143.

15 **Supplement I—Foreign Corporations**

16 **SEC. 231. GROSS INCOME.**

17 (a) **GENERAL RULE.**—In the case of a foreign cor-  
18 poration gross income includes only the gross income from  
19 sources within the United States.

20 (b) **SHIPS UNDER FOREIGN FLAG.**—The income of a  
21 foreign corporation, which consists exclusively of earnings  
22 derived from the operation of a ship or ships documented  
23 under the laws of a foreign country which grants an equiva-  
24 lent exemption to citizens of the United States and to cor-  
25 porations organized in the United States, shall not be

1 included in gross income and shall be exempt from taxation  
2 under this title.

3 **SEC. 232. DEDUCTIONS.**

4 In the case of a foreign corporation the deductions shall  
5 be allowed only if and to the extent that they are connected  
6 with income from sources within the United States; and the  
7 proper apportionment and allocation of the deductions with  
8 respect to sources within and without the United States shall  
9 be determined as provided in section 119, under rules and  
10 regulations prescribed by the Commissioner with the approval  
11 of the Secretary.

12 **SEC. 233. ALLOWANCE OF DEDUCTIONS AND CREDITS.**

13 A foreign corporation shall receive the benefit of the  
14 deductions and credits allowed to it in this title only by  
15 filing or causing to be filed with the collector a true and  
16 accurate return of its total income received from all sources  
17 in the United States, in the manner prescribed in this title;  
18 including therein all the information which the Commis-  
19 sioner may deem necessary for the calculation of such deduc-  
20 tions and credits.

21 **SEC. 234. CREDITS AGAINST TAX.**

22 Foreign corporations shall not be allowed the credits  
23 against the tax for taxes of foreign countries and possessions  
24 of the United States allowed by section 131.



**1 SEC. 235. RETURNS.**

2 In the case of a foreign corporation not having any  
3 office or place of business in the United States the return,  
4 in lieu of the time prescribed in section 53 (a) (1), shall be  
5 made on or before the fifteenth day of the sixth month fol-  
6 lowing the close of the fiscal year, or, if the return is made  
7 on the basis of the calendar year then on or before the  
8 fifteenth day of June. If any foreign corporation has no  
9 office or place of business in the United States but has an  
10 agent in the United States, the return shall be made by the  
11 agent.

**12 SEC. 236. PAYMENT OF TAX.**

13 (a) **TIME OF PAYMENT.**—In the case of a foreign  
14 corporation not having any office or place of business in the  
15 United States the total amount of tax imposed by this title  
16 shall be paid, in lieu of the time prescribed in section 56 (a),  
17 on the fifteenth day of June following the close of the  
18 calendar year, or, if the return should be made on the basis  
19 of a fiscal year, then on the fifteenth day of the sixth month  
20 following the close of the fiscal year.

21 (b) **WITHHOLDING AT SOURCE.**—For withholding at  
22 source of tax on income of foreign corporations, see  
23 section 143.

1 **SEC. 237. FOREIGN INSURANCE COMPANIES.**

2 For special provisions relating to foreign insurance  
3 companies, see Supplement G.

4 **SEC. 238. AFFILIATION.**

5 A foreign corporation shall not be deemed to be  
6 affiliated with any other corporation within the meaning  
7 of section 141.

8 **Supplement J—Possessions of the United States**

9 **SEC. 251. INCOME FROM SOURCES WITHIN POSSESSIONS**  
10 **OF UNITED STATES.**

11 (a) **GENERAL RULE.**—In the case of citizens of the  
12 United States or domestic corporations, satisfying the follow-  
13 ing conditions, gross income means only gross income from  
14 sources within the United States—

15 (1) If 80 per centum or more of the gross income  
16 of such citizen or domestic corporation (computed with-  
17 out the benefit of this section), for the three-year period  
18 immediately preceding the close of the taxable year  
19 (or for such part of such period immediately preceding  
20 the close of such taxable year as may be applicable)  
21 was derived from sources within a possession of the  
22 United States; and

23 (2) If, in the case of such corporation, 50 per  
24 centum or more of its gross income (computed without

1 the benefit of this section) for such period or such part  
2 thereof was derived from the active conduct of a trade  
3 or business within a possession of the United States; or

4 (3) If, in case of such citizen, 50 per centum or  
5 more of his gross income (computed without the bene-  
6 fit of this section) for such period or such part thereof  
7 was derived from the active conduct of a trade or busi-  
8 ness within a possession of the United States either on  
9 his own account or as an employee or agent of another.

10 (b) AMOUNTS RECEIVED IN UNITED STATES.—Not-  
11 withstanding the provisions of subsection (a) there shall be  
12 included in gross income all amounts received by such citi-  
13 zens or corporations within the United States, whether de-  
14 rived from sources within or without the United States.

15 (c) DEFINITION.—As used in this section the term  
16 “possession of the United States” does not include the  
17 Virgin Islands of the United States.

18 (d) DEDUCTIONS.—

19 (1) Citizens of the United States entitled to the  
20 benefits of this section shall have the same deductions  
21 as are allowed by Supplement H in the case of a  
22 nonresident alien individual.

23 (2) Domestic corporations entitled to the benefits  
24 of this section shall have the same deductions as are

1 allowed by Supplement I in the case of a foreign  
2 corporation.

3 (e) CREDITS AGAINST NET INCOME.—A citizen of  
4 the United States entitled to the benefits of this section shall  
5 be allowed a personal exemption of only \$1,000 and shall  
6 not be allowed the credit for dependents provided in section  
7 ~~25(d)~~ 25(b)(2).

8 (f) ALLOWANCE OF DEDUCTIONS AND CREDITS.—  
9 Citizens of the United States and domestic corporations  
10 entitled to the benefits of this section shall receive the benefit  
11 of the deductions and credits allowed to them in this title  
12 only by filing or causing to be filed with the collector a true  
13 and accurate return of their total income received from all  
14 sources in the United States, in the manner prescribed in  
15 this title; including therein all the information which the  
16 Commissioner may deem necessary for the calculation of  
17 such deductions and credits.

18 (g) CREDITS AGAINST TAX.—Persons entitled to the  
19 benefits of this section shall not be allowed the credits against  
20 the tax for taxes of foreign countries and possessions of the  
21 United States allowed by section 131.

22 (h) AFFILIATION.—A corporation entitled to the  
23 benefits of this section shall not be deemed to be affiliated  
24 with any other corporation within the meaning of sec-  
25 tion 141.

1 **SEC. 252. CITIZENS OF POSSESSIONS OF UNITED STATES.**

2 (a) Any individual who is a citizen of any possession  
3 of the United States (but not otherwise a citizen of the  
4 United States) and who is not a resident of the United  
5 States, shall be subject to taxation under this title only as to  
6 income derived from sources within the United States, and  
7 in such case the tax shall be computed and paid in the same  
8 manner and subject to the same conditions as in the case of  
9 other persons who are taxable only as to income derived  
10 from such sources.

11 (b) Nothing in this section shall be construed to alter  
12 or amend the provisions of the Act entitled "An Act making  
13 appropriations for the naval service for the fiscal year ending  
14 June 30, 1922, and for other purposes," approved July 12,  
15 1921, relating to the imposition of income taxes in the  
16 Virgin Islands of the United States.

17 **Supplement K—China Trade Act Corporations**

18 **SEC. 261. CREDIT AGAINST NET INCOME.**

19 (a) **ALLOWANCE OF CREDIT.**—For the purpose only  
20 of the tax imposed by section 13 there shall be allowed, in  
21 the case of a corporation organized under the China Trade  
22 Act, 1922, in addition to the credit provided in section 26, a  
23 credit against the net income of an amount equal to the  
24 proportion of the net income derived from sources within  
25 China (determined in a similar manner to that provided in

1 section 119) which the par value of the shares of stock of the  
2 corporation owned on the last day of the taxable year by (1)  
3 persons resident in China, the United States, or possessions  
4 of the United States, and (2) individual citizens of the  
5 United States or China wherever resident, bears to the par  
6 value of the whole number of shares of stock of the corpora-  
7 tion outstanding on such date: *Provided*, That in no case  
8 shall the amount by which the tax imposed by section 13 is  
9 diminished by reason of such credit exceed the amount of the  
10 special dividend certified under subsection (b) of this section.

11 (b) SPECIAL DIVIDEND.—Such credit shall not be  
12 allowed unless the Secretary of Commerce has certified to  
13 the Commissioner—

14 (1) The amount which, during the year ending  
15 on the date fixed by law for filing the return, the cor-  
16 poration has distributed as a special dividend to or for  
17 the benefit of such persons as on the last day of the  
18 taxable year were resident in China, the United States,  
19 or possessions of the United States, or were individual  
20 citizens of the United States or China, and owned  
21 shares of stock of the corporation;

22 (2) That such special dividend was in addition  
23 to all other amounts, payable or to be payable to such  
24 persons or for their benefit, by reason of their interest  
25 in the corporation; and

1           (3) That such distribution has been made to or  
2           for the benefit of such persons in proportion to the par  
3           value of the shares of stock of the corporation owned  
4           by each; except that if the corporation has more than  
5           one class of stock, the certificates shall contain a state-  
6           ment that the articles of incorporation provide a method  
7           for the apportionment of such special dividend among  
8           such persons, and that the amount certified has been  
9           distributed in accordance with the method so provided.

10          (c) **OWNERSHIP OF STOCK.**—For the purposes of this  
11          section shares of stock of a corporation shall be considered  
12          to be owned by the person in whom the equitable right to  
13          the income from such shares is in good faith vested.

14          (d) **DEFINITION OF CHINA.**—As used in this section  
15          the term “China” shall have the same meaning as when  
16          used in the China Trade Act, 1922.

17          **SEC. 262. CREDITS AGAINST THE TAX.**

18          A corporation organized under the China Trade Act,  
19          1922, shall not be allowed the credits against the tax for  
20          taxes of foreign countries and possessions of the United  
21          States allowed by section 131.

22          **SEC. 263. AFFILIATION.**

23          A corporation organized under the China Trade Act,  
24          1922, shall not be deemed to be affiliated with any other  
25          corporation within the meaning of section 141.

1 **SEC. 264. INCOME OF SHAREHOLDERS.**

2 For exclusion of dividends from gross income, see  
3 section 116.

4 **Supplement L—Assessment and Collection of Deficiencies**

5 **SEC. 271. DEFINITION OF DEFICIENCY.**

6 As used in this title in respect of a tax imposed by this  
7 title “deficiency” means—

8 (a) The amount by which the tax imposed by this  
9 title exceeds the amount shown as the tax by the tax-  
10 payer upon his return; but the amount so shown on the  
11 return shall first be increased by the amounts previously  
12 assessed (or collected without assessment) as a deficiency,  
13 and decreased by the amounts previously abated, credited,  
14 refunded, or otherwise repaid in respect of such tax; or

15 (b) If no amount is shown as the tax by the tax-  
16 payer upon his return, or if no return is made by the tax-  
17 payer, then the amount by which the tax exceeds the  
18 amounts previously assessed (or collected without assess-  
19 ment) as a deficiency; but such amounts previously assessed,  
20 or collected without assessment, shall first be decreased  
21 by the amounts previously abated, credited, refunded, or  
22 otherwise repaid in respect of such tax.

23 **SEC. 272. PROCEDURE IN GENERAL.**

24 (a) **PETITION TO BOARD OF TAX APPEALS.**—If in  
25 the case of any taxpayer, the Commissioner determines that



1 there is a deficiency in respect of the tax imposed by this title,  
2 the Commissioner is authorized to send notice of such defi-  
3 ciency to the taxpayer by registered mail. Within ~~60~~ 90  
4 days after such notice is mailed (not counting Sunday as  
5 the ~~sixtieth~~ *ninetieth* day), the taxpayer may file a petition  
6 with the Board of Tax Appeals for a redetermination of the  
7 deficiency. No assessment of a deficiency in respect of the  
8 tax imposed by this title and no distraint or proceeding in  
9 court for its collection shall be made, begun, or prosecuted  
10 until such notice has been mailed to the taxpayer, nor until  
11 the expiration of such ~~60-day~~ *90-day* period, nor, if a petition  
12 has been filed with the Board, until the decision of the Board  
13 has become final. Notwithstanding the provisions of section  
14 3224 of the Revised Statutes the making of such assessment  
15 or the beginning of such proceeding or distraint during  
16 the time such prohibition is in force may be enjoined by a  
17 proceeding in the proper court.

18 For exceptions to the restrictions imposed by this sub-  
19 section, see—

20 (1) Subsection (d) of this section, relating to  
21 waivers by the taxpayer;

22 (2) Subsection (f) of this section, relating to  
23 notifications of mathematical errors appearing upon  
24 the face of the return;

1 (3) Section 273, relating to jeopardy assessments;

2 (4) Section 274, relating to bankruptcy and  
3 receiverships; and

4 (5) Section 1001 of the Revenue Act of 1926, as  
5 amended, relating to assessment or collection of the  
6 amount of the deficiency determined by the Board  
7 pending court review.

8 (b) COLLECTION OF DEFICIENCY FOUND BY  
9 BOARD.—If the taxpayer files a petition with the Board, the  
10 entire amount redetermined as the deficiency by the decision  
11 of the Board which has become final shall be assessed and  
12 shall be paid upon notice and demand from the collector.  
13 No part of the amount determined as a deficiency by the  
14 Commissioner but disallowed as such by the decision of the  
15 Board which has become final shall be assessed or be col-  
16 lected by distraint or by proceeding in court with or without  
17 assessment.

18 (c) FAILURE TO FILE PETITION.—If the taxpayer  
19 does not file a petition with the Board within the time  
20 prescribed in subsection (a) of this section, the deficiency,  
21 notice of which has been mailed to the taxpayer, shall be  
22 assessed, and shall be paid upon notice and demand from  
23 the collector.

24 (d) WAIVER OF RESTRICTIONS.—The taxpayer shall  
25 at any time have the right, by a signed notice in writing filed

1 with the Commissioner, to waive the restrictions provided  
2 in subsection (a) of this section on the assessment and collec-  
3 tion of the whole or any part of the deficiency.

4 (e) INCREASE OF DEFICIENCY AFTER NOTICE  
5 MAILED.—The Board shall have jurisdiction to redetermine  
6 the correct amount of the deficiency even if the amount so  
7 redetermined is greater than the amount of the deficiency,  
8 notice of which has been mailed to the taxpayer, and to  
9 determine whether any penalty, additional amount or addi-  
10 tion to the tax should be assessed—if claim therefor is  
11 asserted by the Commissioner at or before the hearing or a  
12 rehearing.

13 (f) FURTHER DEFICIENCY LETTERS RESTRICTED.—  
14 If the Commissioner has mailed to the taxpayer notice of a  
15 deficiency as provided in subsection (a) of this section, and  
16 the taxpayer files a petition with the Board within the time  
17 prescribed in such subsection, the Commissioner shall have  
18 no right to determine any additional deficiency in respect of  
19 the same taxable year, except in the case of fraud, and  
20 except as provided in subsection (e) of this section, relating  
21 to assertion of greater deficiencies before the Board, or in  
22 section 273 (c), relating to the making of jeopardy assess-  
23 ments. If the taxpayer is notified that, on account of a  
24 mathematical error appearing upon the face of the return,  
25 an amount of tax in excess of that shown upon the return

1 is due, and that an assessment of the tax has been or will be  
2 made on the basis of what would have been the correct  
3 amount of tax but for the mathematical error, such notice  
4 shall not be considered (for the purposes of this subsection,  
5 or of subsection (a) of this section, prohibiting assessment  
6 and collection until notice of deficiency has been mailed, or  
7 of section 322 (c), prohibiting credits or refunds after peti-  
8 tion to the Board of Tax Appeals) as a notice of a deficiency,  
9 and the taxpayer shall have no right to file a petition with  
10 the Board based on such notice, nor shall such assessment or  
11 collection be prohibited by the provisions of subsection (a)  
12 of this section.

13 (g) JURISDICTION OVER OTHER TAXABLE YEARS.—  
14 The Board in redetermining a deficiency in respect of any  
15 taxable year shall consider such facts with relation to the  
16 taxes for other taxable years as may be necessary correctly  
17 to redetermine the amount of such deficiency, but in so doing  
18 shall have no jurisdiction to determine whether or not the  
19 tax for any other taxable year has been overpaid or  
20 underpaid.

21 (h) FINAL DECISIONS OF BOARD.—For the purposes  
22 of this title the date on which a decision of the Board becomes  
23 final shall be determined according to the provisions of  
24 section 1005 of the Revenue Act of 1926.

1           (i) PRORATING OF DEFICIENCY TO INSTALL-  
2 MENTS.—If the taxpayer has elected to pay the tax in  
3 installments and a deficiency has been assessed, the defi-  
4 ciency shall be prorated to the four installments. Except  
5 as provided in section 273 (relating to jeopardy assess-  
6 ments), that part of the deficiency so prorated to any install-  
7 ment the date for payment of which has not arrived, shall  
8 be collected at the same time as and as part of such install-  
9 ment. That part of the deficiency so prorated to any  
10 installment the date for payment of which has arrived, shall  
11 be paid upon notice and demand from the collector.

12           (j) EXTENSION OF TIME FOR PAYMENT OF DEFICI-  
13 CIENCIES.—Where it is shown to the satisfaction of the  
14 Commissioner that the payment of a deficiency upon the  
15 date prescribed for the payment thereof will result in undue  
16 hardship to the taxpayer the Commissioner, with the ap-  
17 proval of the Secretary (except where the deficiency is  
18 due to negligence, to intentional disregard of rules and  
19 regulations, or to fraud with intent to evade tax), may  
20 grant an extension for the payment of such deficiency or  
21 any part thereof for a period not in excess of eighteen  
22 months, and, in exceptional cases, for a further period not  
23 in excess of twelve months. If an extension is granted, the  
24 Commissioner may require the taxpayer to furnish a bond  
25 in such amount, not exceeding double the amount of the

1 deficiency, and with such sureties, as the Commissioner  
2 deems necessary, conditioned upon the payment of the  
3 deficiency in accordance with the terms of the extension.

4 (k) ADDRESS FOR NOTICE OF DEFICIENCY.—In the  
5 absence of notice to the Commissioner under section 312 (a)  
6 of the existence of a fiduciary relationship, notice of a defi-  
7 ciency in respect of a tax imposed by this title, if mailed to  
8 the taxpayer at his last known address, shall be sufficient  
9 for the purposes of this title even if such taxpayer is deceased,  
10 or is under a legal disability, or, in the case of a corporation,  
11 has terminated its existence.

12 SEC. 273. JEOPARDY ASSESSMENTS.

13 (a) AUTHORITY FOR MAKING.—If the Commissioner  
14 believes that the assessment or collection of a deficiency will  
15 be jeopardized by delay, he shall immediately assess such  
16 deficiency (together with all interest, additional amounts, or  
17 additions to the tax provided for by law) and notice and  
18 demand shall be made by the collector for the payment  
19 thereof.

20 (b) DEFICIENCY LETTERS.—If the jeopardy assess-  
21 ment is made before any notice in respect of the tax to which  
22 the jeopardy assessment relates has been mailed under sec-  
23 tion 272 (a), then the Commissioner shall mail a notice  
24 under such subsection within sixty days after the making of  
25 the assessment.

1 (c) AMOUNT ASSESSABLE BEFORE DECISION OF  
2 BOARD.—The jeopardy assessment may be made in respect  
3 of a deficiency greater or less than that notice of which has  
4 been mailed to the taxpayer, despite the provisions of section  
5 272 (f) prohibiting the determination of additional deficien-  
6 cies, and whether or not the taxpayer has theretofore filed  
7 a petition with the Board of Tax Appeals. The Commis-  
8 sioner shall notify the Board of the amount of such assess-  
9 ment, if the petition is filed with the Board before the  
10 making of the assessment or is subsequently filed, and the  
11 Board shall have jurisdiction to redetermine the entire  
12 amount of the deficiency and of all amounts assessed at the  
13 same time in connection therewith.

14 (d) AMOUNT ASSESSABLE AFTER DECISION OF  
15 BOARD.—If the jeopardy assessment is made after the deci-  
16 sion of the Board is rendered such assessment may be made  
17 only in respect of the deficiency determined by the Board  
18 in its decision.

19 (e) EXPIRATION OF RIGHT TO ASSESS.—A jeopardy  
20 assessment may not be made after the decision of the Board  
21 has become final or after the taxpayer has filed a petition  
22 for review of the decision of the Board.

23 (f) BOND TO STAY COLLECTION.—When a jeopardy  
24 assessment has been made the taxpayer, within 10 days  
25 after notice and demand from the collector for the pay-

1 ment of the amount of the assessment, may obtain a stay  
2 of collection of the whole or any part of the amount of  
3 the assessment by filing with the collector a bond in such  
4 amount, not exceeding double the amount as to which the  
5 stay is desired, and with such sureties, as the collector  
6 deems necessary, conditioned upon the payment of so much  
7 of the amount, the collection of which is stayed by the  
8 bond, as is not abated by a decision of the Board which  
9 has become final, together with interest thereon as provided  
10 in section 297.

11 (g) **SAME—FURTHER CONDITIONS.**—If the bond is  
12 given before the taxpayer has filed his petition with the  
13 Board under section 272 (a), the bond shall contain a  
14 further condition that if a petition is not filed within the  
15 period provided in such subsection, then the amount the  
16 collection of which is stayed by the bond will be paid  
17 on notice and demand at any time after the expiration  
18 of such period, together with interest thereon at the rate  
19 of 6 per centum per annum from the date of the jeopardy  
20 notice and demand to the date of notice and demand under  
21 this subsection.

22 (h) **WAIVER OF STAY.**—Upon the filing of the bond  
23 the collection of so much of the amount assessed as is cov-  
24 ered by the bond shall be stayed. The taxpayer shall have  
25 the right to waive such stay at any time in respect of the



1 whole or any part of the amount covered by the bond, and  
2 if as a result of such waiver any part of the amount covered  
3 by the bond is paid, then the bond shall, at the request of  
4 the taxpayer, be proportionately reduced. If the Board  
5 determines that the amount assessed is greater than the  
6 amount which should have been assessed, then when the  
7 decision of the Board is rendered the bond shall, at the  
8 request of the taxpayer, be proportionately reduced.

9 (i) COLLECTION OF UNPAID AMOUNTS.—When the  
10 petition has been filed with the Board and when the amount  
11 which should have been assessed has been determined by a  
12 decision of the Board which has become final, then any  
13 unpaid portion, the collection of which has been stayed by  
14 the bond, shall be collected as part of the tax upon notice  
15 and demand from the collector, and any remaining portion  
16 of the assessment shall be abated. If the amount already  
17 collected exceeds the amount determined as the amount  
18 which should have been assessed, such excess shall be  
19 credited or refunded to the taxpayer as provided in section  
20 322, without the filing of claim therefor. If the amount  
21 determined as the amount which should have been assessed  
22 is greater than the amount actually assessed, then the dif-  
23 ference shall be assessed and shall be collected as part of the  
24 tax upon notice and demand from the collector.

1           (j) CLAIMS IN ABATEMENT.—No claim in abatement  
2 shall be filed in respect of any assessment in respect of any  
3 tax imposed by this title.

4   **SEC. 274. BANKRUPTCY AND RECEIVERSHIPS.**

5           (a) IMMEDIATE ASSESSMENT.—Upon the adjudica-  
6 tion of bankruptcy of any taxpayer in any bankruptcy pro-  
7 ceeding or the appointment of a receiver for any taxpayer  
8 in any receivership proceeding before any court of the  
9 United States or of any State or Territory or of the District  
10 of Columbia, any deficiency (together with all interest, addi-  
11 tional amounts, or additions to the tax provided for by law)  
12 determined by the Commissioner in respect of a tax imposed  
13 by this title upon such taxpayer shall, despite the restrictions  
14 imposed by section 272 (a) upon assessments be immediately  
15 assessed if such deficiency has not theretofore been assessed  
16 in accordance with law. *In such cases the trustee in bank-*  
17 *ruptcy or receiver shall give notice in writing to the Com-*  
18 *missioner of the adjudication of bankruptcy or the appoint-*  
19 *ment of the receiver, and the running of the statute of limi-*  
20 *tations on the making of assessments shall be suspended*  
21 *for the period from the date of adjudication in bankruptcy*  
22 *or the appointment of the receiver to a date 30 days after*  
23 *the date upon which the notice from the trustee or receiver*  
24 *is received by the Commissioner; but the suspension under*  
25 *this sentence shall in no case be for a period in excess of*

1 *two years.* Claims for the deficiency and such in-  
 2 terest, additional amounts and additions to the tax may be  
 3 presented, for adjudication in accordance with law, to the  
 4 court before which the bankruptcy or receivership proceeding  
 5 is pending, despite the pendency of proceedings for the rede-  
 6 termination of the deficiency in pursuance of a petition to the  
 7 Board; but no petition for any such redetermination shall be  
 8 filed with the Board after the adjudication of bankruptcy or  
 9 the appointment of the receiver.

10 (b) UNPAID CLAIMS.—Any portion of the claim  
 11 allowed in such bankruptcy or receivership proceeding  
 12 which is unpaid shall be paid by the taxpayer upon notice  
 13 and demand from the collector after the termination of such  
 14 proceeding, and may be collected by distraint or proceeding  
 15 in court within six years after termination of such proceed-  
 16 ing. Extensions of time for such payment may be had in  
 17 the same manner and subject to the same provisions and  
 18 limitations as are provided in section 272 (j) and section  
 19 296 in the case of a deficiency in a tax imposed by this title.

20 **SEC. 275. PERIOD OF LIMITATION UPON ASSESSMENT**  
 21 **AND COLLECTION.**

22 Except as provided in section 276—

23 (a) GENERAL RULE.—The amount of income taxes  
 24 imposed by this title shall be assessed within ~~two~~ *three* years  
 25 after the return was filed, and no proceeding in court with-

1 out assessment for the collection of such taxes shall be begun  
2 after the expiration of such period.

3 (b) **REQUEST FOR PROMPT ASSESSMENT.**—In the  
4 case of income received during the lifetime of a decedent, or  
5 by his estate during the period of administration, or by a  
6 corporation, the tax shall be assessed, and any proceeding  
7 in court without assessment for the collection of such tax  
8 shall be begun, within ~~one year~~ *eighteen months* after writ-  
9 ten request therefor (filed after the return is made) by  
10 the executor, administrator, or other fiduciary representing  
11 the estate of such decedent, or by the corporation, but not  
12 after the expiration of ~~two~~ *three* years after the return was  
13 filed. This subsection shall not apply in the case of a  
14 corporation unless—

15 (1) Such written request notifies the Commis-  
16 sioner that the corporation contemplates dissolution at  
17 or before the expiration of such ~~year~~ *18 months' period*;  
18 and

19 (2) The dissolution is in good faith begun before  
20 the expiration of such ~~year~~ *18 months' period*; and

21 (3) The dissolution is completed.

22 (c) *For the purposes of subsections (a) and (b), a*  
23 *return filed before the last day prescribed by law for the*  
24 *filing thereof shall be considered as filed on such last day.*

1        ~~(c)~~ (d) CORPORATION AND SHAREHOLDER.—If a  
 2 corporation makes no return of the tax imposed by this title,  
 3 but each of the shareholders includes in his return his dis-  
 4 tributive share of the net income of the corporation, then  
 5 the tax of the corporation shall be assessed within four years  
 6 after the last date on which any such shareholder's return  
 7 was filed.

8        SEC. 276. SAME—EXCEPTIONS.

9        ~~(c)~~ FALSE RETURN OR NO RETURN.—In the case of  
 10 a false or fraudulent return with intent to evade tax or of  
 11 a failure to file a return the tax may be assessed, or a pro-  
 12 ceeding in court for the collection of such tax may be begun  
 13 without assessment, at any time.

14        (a) NO RETURN OR FALSE RETURN.—If the taxpayer  
 15 fails to file a return, or files a false or fraudulent return with  
 16 intent to evade tax, or omits from gross income an amount  
 17 properly includible therein which is in excess of 25 per centum  
 18 of the amount of gross income stated in the return, the tax  
 19 may be assessed, or a proceeding in court for the collection of  
 20 such tax may be begun without assessment, at any time.

21        (b) WAIVERS.—Where before the expiration of the  
 22 time prescribed in section 275 for the assessment of the tax,  
 23 both the Commissioner and the taxpayer have consented in  
 24 writing to its assessment after such time, the tax may be

1 assessed at any time prior to the expiration of the period  
2 agreed upon. The period so agreed upon may be extended  
3 by subsequent agreements in writing made before the expira-  
4 tion of the period previously agreed upon.

5 (c) **COLLECTION AFTER ASSESSMENT.**—Where the  
6 assessment of any income tax imposed by this title has been  
7 made within the period of limitation properly applicable  
8 thereto, such tax may be collected by distraint or by a pro-  
9 ceeding in court, but only if begun (1) within six years  
10 after the assessment of the tax, or (2) prior to the expira-  
11 tion of any period for collection agreed upon in writing by  
12 the Commissioner and the taxpayer before the expiration of  
13 such six-year period. The period so agreed upon may be  
14 extended by subsequent agreements in writing made before  
15 the expiration of the period previously agreed upon.

16 **SEC. 277. SUSPENSION OF RUNNING OF STATUTE.**

17 The running of the statute of limitations provided in  
18 section 275 or 276 on the making of assessments and the  
19 beginning of distraint or a proceeding in court for collection,  
20 in respect of any deficiency, shall (after the mailing of a  
21 notice under section 272 (a) ) be suspended for the period  
22 during which the Commissioner is prohibited from making  
23 the assessment or beginning distraint or a proceeding in  
24 court (and in any event, if a proceeding in respect of the:

1 deficiency is placed on the docket of the Board, until the  
2 decision of the Board becomes final), and for sixty days  
3 thereafter.

4 Supplement M—Interest and Additions to the Tax

5 **SEC. 291. FAILURE TO FILE RETURN.**

6 In case of any failure to make and file a return required  
7 by this title, within the time prescribed by law or prescribed  
8 by the Commissioner in pursuance of law, 25 per centum of  
9 the tax shall be added to the tax, except that when a return  
10 is filed after such time and it is shown that the failure to  
11 file it was due to reasonable cause and not due to willful  
12 neglect no such addition shall be made to the tax. The  
13 amount so added to any tax shall be collected at the same  
14 time and in the same manner and as a part of the tax unless  
15 the tax has been paid before the discovery of the neglect,  
16 in which case the amount so added shall be collected in the  
17 same manner as the tax. The amount added to the tax  
18 under this section shall be in lieu of the 25 per centum addi-  
19 tion to the tax provided in section 3176 of the Revised  
20 Statutes, as amended.

21 **SEC. 292. INTEREST ON DEFICIENCIES.**

22 Interest upon the amount determined as a deficiency  
23 shall be assessed at the same time as the deficiency, shall  
24 be paid upon notice and demand from the collector, and

1 shall be collected as a part of the tax, at the rate of 6 per  
2 centum per annum from the date prescribed for the payment  
3 of the tax (or, if the tax is paid in installments, from the  
4 date prescribed for the payment of the first installment) to  
5 the date the deficiency is assessed, or, in the case of a waiver  
6 under section 272 (d), to the thirtieth day after the filing of  
7 such waiver or to the date the deficiency is assessed which-  
8 ever is the earlier.

9 **SEC. 293. ADDITIONS TO THE TAX IN CASE OF DEFICIENCY.**

10 (a) **NEGLIGENCE.**—If any part of any deficiency is  
11 due to negligence, or intentional disregard of rules and  
12 regulations but without intent to defraud, 5 per centum of  
13 the total amount of the deficiency (in addition to such  
14 deficiency) shall be assessed, collected, and paid in the same  
15 manner as if it were a deficiency, except that the provisions  
16 of section 272 (i), relating to the prorating of a deficiency,  
17 and of section 292, relating to interest on deficiencies, shall  
18 not be applicable.

19 (b) **FRAUD.**—If any part of any deficiency is due to  
20 fraud with intent to evade tax, then 50 per centum of the  
21 total amount of the deficiency (in addition to such defi-  
22 ciency) shall be so assessed, collected, and paid, in lieu of  
23 the 50 per centum addition to the tax provided in section  
24 3176 of the Revised Statutes, as amended.



1 **SEC. 294. ADDITIONS TO THE TAX IN CASE OF NON-**  
2 **PAYMENT.**

3 **(a) TAX SHOWN ON RETURN.—**

4 **(1) GENERAL RULE.—**Where the amount deter-  
5 mined by the taxpayer as the tax imposed by this title,  
6 or any installment thereof, or any part of such amount  
7 or installment, is not paid on or before the date pre-  
8 scribed for its payment, there shall be collected as a  
9 part of the tax, interest upon such unpaid amount at the  
10 rate of 1 per centum a month from the date prescribed  
11 for its payment until it is paid.

12 **(2) IF EXTENSION GRANTED.—**Where an ex-  
13 tension of time for payment of the amount so deter-  
14 mined as the tax by the taxpayer, or any installment  
15 thereof, has been granted, and the amount the time for  
16 payment of which has been extended, and the interest  
17 thereon determined under section 295, is not paid in  
18 full prior to the expiration of the period of the extension,  
19 then, in lieu of the interest provided for in paragraph  
20 (1) of this subsection, interest at the rate of 1 per  
21 centum a month shall be collected on such unpaid  
22 amount from the date of the expiration of the period of  
23 the extension until it is paid.

24 **(b) DEFICIENCY.—**Where a deficiency, or any  
25 interest or additional amounts assessed in connection there-

1 with under section 292, or under section 293, or any addi-  
2 tion to the tax in case of delinquency provided for in section  
3 291, is not paid in full within ten days from the date of  
4 notice and demand from the collector, there shall be collected  
5 as part of the tax, interest upon the unpaid amount at the  
6 rate of 1 per centum a month from the date of such notice  
7 and demand until it is paid. If any part of a deficiency  
8 prorated to any unpaid installment under section 272 (i) is  
9 not paid in full on or before the date prescribed for the pay-  
10 ment of such installment, there shall be collected as part of  
11 the tax interest upon the unpaid amount at the rate of 1 per  
12 centum a month from such date until it is paid.

13 (c) FIDUCIARIES.—For any period an estate is held  
14 by a fiduciary appointed by order of any court of competent  
15 jurisdiction or by will, there shall be collected interest at the  
16 rate of 6 per centum per annum in lieu of the interest  
17 provided in subsections (a) and (b) of this section.

18 (d) FILING OF JEOPARDY BOND.—If a bond is filed,  
19 as provided in section 273, the provisions of subsections  
20 (b) and (c) of this section shall not apply to the amount  
21 covered by the bond.

22 **SEC. 295. TIME EXTENDED FOR PAYMENT OF TAX SHOWN**  
23 **ON RETURN.**

24 If the time for payment of the amount determined as  
25 the tax by the taxpayer, or any installment thereof, is

1 . extended under the authority of section 56 (c), there shall  
2 be collected as a part of such amount, interest thereon at  
3 the rate of 6 per centum per annum from the date when  
4 such payment should have been made if no extension had  
5 been granted, until the expiration of the period of the  
6 extension.

7 **SEC. 296. TIME EXTENDED FOR PAYMENT OF DEFICIENCY.**

8       If the time for the payment of any part of a deficiency  
9 is extended, there shall be collected, as a part of the tax,  
10 interest on the part of the deficiency the time for payment  
11 of which is so extended, at the rate of 6 per centum per  
12 annum for the period of the extension, and no other interest  
13 shall be collected on such part of the deficiency for such  
14 period. If the part of the deficiency the time for payment  
15 of which is so extended is not paid in accordance with the  
16 terms of the extension, there shall be collected, as a part of  
17 the tax, interest on such unpaid amount at the rate of 1  
18 per centum a month for the period from the time fixed by  
19 the terms of the extension for its payment until it is paid,  
20 and no other interest shall be collected on such unpaid  
21 amount for such period.

22 **SEC. 297. INTEREST IN CASE OF JEOPARDY ASSESSMENTS.**

23       In the case of the amount collected under section  
24 273 (i) there shall be collected at the same time as such  
25 amount, and as a part of the tax, interest at the rate of 6 per

1 centum per annum upon such amount from the date of the  
2 jeopardy notice and demand to the date of notice and demand  
3 under section 273 (i), or, in the case of the amount collected  
4 in excess of the amount of the jeopardy assessment, interest  
5 as provided in section 292. If the amount included in the  
6 notice and demand from the collector under section 273 (i)  
7 is not paid in full within ten days after such notice and  
8 demand, then there shall be collected, as part of the tax,  
9 interest upon the unpaid amount at the rate of 1 per centum  
10 a month (or, for any period the estate of the taxpayer is held  
11 by a fiduciary appointed by any court of competent jurisdic-  
12 tion or by will, at the rate of 6 per centum per annum) from  
13 the date of such notice and demand until it is paid.

14 **SEC. 298. BANKRUPTCY AND RECEIVERSHIPS.**

15 If the unpaid portion of the claim allowed in a bank-  
16 ruptcy or receivership proceeding, as provided in section 274,  
17 is not paid in full within ten days from the date of notice  
18 and demand from the collector, then there shall be collected  
19 as a part of such amount interest upon the unpaid portion  
20 thereof at the rate of 1 per centum a month from the date  
21 of such notice and demand until payment.

22 **SEC. 299. REMOVAL OF PROPERTY OR DEPARTURE FROM**  
23 **UNITED STATES.**

24 For additions to tax in case of leaving the United States  
25 or concealing property in such manner as to hinder collection  
26 of the tax, see section 146.

1 Supplement N—Claims against Transferees and  
2 Fiduciaries

3 SEC. 311. TRANSFERRED ASSETS.

4 (a) METHOD OF COLLECTION.—The amounts of the  
5 following liabilities shall, except as hereinafter in this section  
6 provided, be assessed, collected, and paid in the same man-  
7 ner and subject to the same provisions and limitations as in  
8 the case of a deficiency in a tax imposed by this title (includ-  
9 ing the provisions in case of delinquency in payment after  
10 notice and demand, the provisions authorizing distraint and  
11 proceedings in court for collection, and the provisions  
12 prohibiting claims and suits for refunds) :

13 (1) TRANSFERREES.—The liability, at law or in  
14 equity, of a transferee of property of a taxpayer, in  
15 respect of the tax (including interest, additional  
16 amounts, and additions to the tax provided by law)  
17 imposed upon the taxpayer by this title.

18 (2) FIDUCIARIES.—The liability of a fiduciary  
19 under section 3467 of the Revised Statutes in respect  
20 of the payment of any such tax from the estate of the  
21 taxpayer.

22 Any such liability may be either as to the amount of tax  
23 shown on the return or as to any deficiency in tax.

24 (b) PERIOD OF LIMITATION.—The period of limita-  
25 tion for assessment of any such liability of a transferee or  
26 fiduciary shall be as follows:

1           (1) In the case of the liability of an initial trans-  
 2           feree of the property of the taxpayer,—within one  
 3           year after the expiration of the period of limitation for  
 4           assessment against the taxpayer;

5           (2) In the case of the liability of a transferee of  
 6           a transferee of the property of the taxpayer,—within  
 7           one year after the expiration of the period of limitation  
 8           for assessment against the preceding transferee, but  
 9           only if within three years after the expiration of the  
 10          period of limitation for assessment against the tax-  
 11          payer;—

12          except that if before the expiration of the period of limitation  
 13          for the assessment of the liability of the transferee, a court  
 14          proceeding for the collection of the tax or liability in respect  
 15          thereof has been begun against the taxpayer or last preceding  
 16          transferee, respectively,—then the period of limitation for  
 17          assessment of the liability of the transferee shall expire one  
 18          year after the return of execution in the court proceeding.

19          (3) In the case of the liability of a fiduciary,—  
 20          not later than one year after the liability arises or not  
 21          later than the expiration of the period for collection  
 22          of the tax in respect of which such liability arises,  
 23          whichever is the later.

24          (c) PERIOD FOR ASSESSMENT AGAINST TAX-  
 25          PAYER.—For the purposes of this section, if the taxpayer is

1 deceased, or in the case of a corporation, has terminated its  
2 existence, the period of limitation for assessment against the  
3 taxpayer shall be the period that would be in effect had the  
4 death or termination of existence not occurred.

5 (d) **SUSPENSION OF RUNNING OF STATUTE OF**  
6 **LIMITATIONS.**—The running of the statute of limitations  
7 upon the assessment of the liability of a transferee or  
8 fiduciary shall, after the mailing to the transferee or fiduciary  
9 of the notice provided for in section 272 (a), be suspended  
10 for the period during which the Commissioner is prohibited  
11 from making the assessment in respect of the liability of the  
12 transferee or fiduciary (and in any event, if a proceeding in  
13 respect of the liability is placed on the docket of the Board,  
14 until the decision of the Board becomes final), and for sixty  
15 days thereafter.

16 (e) **ADDRESS FOR NOTICE OF LIABILITY.**—In the  
17 absence of notice to the Commissioner under section 312 (b)  
18 of the existence of a fiduciary relationship, notice of liability  
19 enforceable under this section in respect of a tax imposed  
20 by this title, if mailed to the person subject to the liability at  
21 his last known address, shall be sufficient for the purposes of  
22 this title even if such person is deceased, or is under a legal  
23 disability, or, in the case of a corporation, has terminated its  
24 existence.

1           (f) DEFINITION OF "TRANSFeree".—As used in  
2 this section, the term "transferee" includes heir, legatee,  
3 devisee, and distributee.

4 **SEC. 312. NOTICE OF FIDUCIARY RELATIONSHIP.**

5           (a) FIDUCIARY OF TAXPAYER.—Upon notice to the  
6 Commissioner that any person is acting in a fiduciary  
7 capacity such fiduciary shall assume the powers, rights,  
8 duties, and privileges of the taxpayer in respect of a tax  
9 imposed by this title (except as otherwise specifically pro-  
10 vided and except that the tax shall be collected from the  
11 estate of the taxpayer), until notice is given that the  
12 fiduciary capacity has terminated.

13           (b) FIDUCIARY OF TRANSFEREE.—Upon notice to  
14 the Commissioner that any person is acting in a fiduciary  
15 capacity for a person subject to the liability specified in  
16 section 311, the fiduciary shall assume, on behalf of such  
17 person, the powers, rights, duties, and privileges of such  
18 person under such section (except that the liability shall  
19 be collected from the estate of such person), until notice  
20 is given that the fiduciary capacity has terminated.

21           (c) MANNER OF NOTICE.—Notice under subsection  
22 (a) or (b) shall be given in accordance with regulations  
23 prescribed by the Commissioner with the approval of the  
24 Secretary.



**Supplement O—Overpayments**

**2 SEC. 321. OVERPAYMENT OF INSTALLMENT.**

3       If the taxpayer has paid as an installment of the tax  
4 more than the amount determined to be the correct amount  
5 of such installment, the overpayment shall be credited against  
6 the unpaid installments, if any. If the amount already paid,  
7 whether or not on the basis of installments, exceeds the  
8 amount determined to be the correct amount of the tax, the  
9 overpayment shall be credited or refunded as provided in  
10 section 322.

**11 SEC. 322. REFUNDS AND CREDITS.**

12       (a) **AUTHORIZATION.**—Where there has been an  
13 overpayment of any tax imposed by this title, the amount  
14 of such overpayment shall be credited against any income,  
15 war-profits, or excess-profits tax or installment thereof then  
16 due from the taxpayer, and any balance shall be refunded  
17 immediately to the taxpayer.

18       (b) **LIMITATION ON ALLOWANCE.**—

19       ~~(1) **PERIOD OF LIMITATION.**—No such credit or~~  
20 ~~refund shall be allowed or made after two years from~~  
21 ~~the time the tax was paid, unless before the expiration~~  
22 ~~of such period a claim therefor is filed by the taxpayer.~~

23       (1) *PERIOD OF LIMITATION.*—*Unless a claim*  
24 *for credit or refund is filed by the taxpayer within three*  
25 *years from the time the return was filed by the taxpayer*

1        *or within two years from the time the tax was paid, no*  
 2        *credit or refund shall be allowed or made after the*  
 3        *expiration of whichever of such periods expires the*  
 4        *later. If no return is filed by the taxpayer, then no*  
 5        *credit or refund shall be allowed or made after two*  
 6        *years from the time the tax was paid, unless before the*  
 7        *expiration of such period a claim therefor is filed by*  
 8        *the taxpayer.*

9                (2) LIMIT ON AMOUNT OF CREDIT OR  
 10        REFUND.—The amount of the credit or refund shall not  
 11        exceed the portion of the tax paid during the ~~two~~ *three*  
 12        years immediately preceding the filing of the claim,  
 13        ~~or or~~, if no claim was filed, then during the ~~two~~ *three*  
 14        years immediately preceding the allowance of the  
 15        credit or refund.

16                (c) EFFECT OF PETITION TO BOARD.—If the Com-  
 17        missioner has mailed to the taxpayer a notice of deficiency  
 18        under section 272 (a) and if the taxpayer files a petition  
 19        with the Board of Tax Appeals within the time prescribed  
 20        in such subsection, no credit or refund in respect of the tax  
 21        for the taxable year in respect of which the Commissioner  
 22        has determined the deficiency shall be allowed or made and  
 23        no suit by the taxpayer for the recovery of any part of such  
 24        tax shall be instituted in any court except—

25                (1) As to overpayments determined by a decision  
 26        of the Board which has become final; and

1           (2) As to any amount collected in excess of an  
2 amount computed in accordance with the decision of  
3 the Board which has become final; and

4           (3) As to any amount collected after the period  
5 of limitation upon the beginning of distraint or a pro-  
6 ceeding in court for collection has expired; but in any  
7 such claim for credit or refund or in any such suit for  
8 refund the decision of the Board which has become  
9 final, as to whether such period has expired before the  
10 notice of deficiency was mailed, shall be conclusive.

11       (d) OVERPAYMENT FOUND BY BOARD.—If the  
12 Board finds that there is no deficiency and further finds  
13 that the taxpayer has made an overpayment of tax in  
14 respect of the taxable year in respect of which the Com-  
15 missioner determined the deficiency, the Board shall have  
16 jurisdiction to determine the amount of such overpayment,  
17 and such amount shall, when the decision of the Board has  
18 become final, be credited or refunded to the taxpayer. No  
19 such credit or refund shall be made of any portion of the tax  
20 *unless the Board determines as part of its decision that it*  
21 *was paid more than two within three years before the filing*  
22 *of the claim or the filing of the petition, whichever is earlier.*

23       (e) TAX WITHHELD AT SOURCE.—For refund or  
24 credit in case of excessive withholding at the source, see  
25 section 143 (f).

**1 TITLE II—AMENDMENTS TO ESTATE TAX****2 SEC. 401. REVOCABLE TRUSTS.**

**3 Section 302(d) of the Revenue Act of 1926 is amended**  
**4 to read as follows:**

**5 “(d)(1) To the extent of any interest therein of which**  
**6 the decedent has at any time made a transfer, by trust or**  
**7 otherwise, where the enjoyment thereof was subject at the date**  
**8 of his death to any change through the exercise of a power,**  
**9 either by the decedent alone or in conjunction with any per-**  
**10 son, to alter, amend, or revoke, or where the decedent relin-**  
**11 quished any such power in contemplation of his death, except**  
**12 in case of a bona fide sale for an adequate and full considera-**  
**13 tion in money or money’s worth.**

**14 “(2) For the purposes of this subdivision the power**  
**15 to alter, amend, or revoke shall be considered to exist on the**  
**16 date of the decedent’s death even though the exercise of the**  
**17 power is subject to a precedent giving of notice or even**  
**18 though the alteration, amendment, or revocation takes effect**  
**19 only on the expiration of a stated period after the exercise**  
**20 of the power, whether or not on or before the date of the**  
**21 decedent’s death notice has been given or the power has been**  
**22 exercised. In such cases proper adjustment shall be made**  
**23 representing the interests which would have been excluded**  
**24 from the power if the decedent had lived, and for such pur-**

1 pose if the notice has not been given or the power has not  
 2 been exercised on or before the date of his death, such notice  
 3 shall be considered to have been given, or the power exercised,  
 4 on the date of his death.

5 “(3) The relinquishment of any such power, not admit-  
 6 ted or shown to have been in contemplation of the decedent's  
 7 death, made within two years prior to his death without  
 8 such a consideration and affecting the interest or interests  
 9 (whether arising from one or more transfers or the creation  
 10 of one or more trusts) of any one beneficiary of a value or  
 11 aggregate value, at the time of such death, in excess of  
 12 \$5,000, then, to the extent of such excess, such relinquish-  
 13 ment or relinquishments shall, unless shown to the contrary,  
 14 be deemed to have been made in contemplation of death  
 15 within the meaning of this title;”

NOTE.--Section 302(d) of the Revenue Act of 1926 will, after the above amendment, read as follows:

SEC. 302. The value of the gross estate of the decedent shall be determined by including the value at the time of his death of all property, real or personal, tangible or intangible, wherever situated—

\* \* \* \* \*

(d) (1) To the extent of any interest therein of which the decedent has at any time made a transfer, by trust or otherwise, where the enjoyment thereof was subject at the date of his death to any change through the exercise of a power, either by the decedent alone or in conjunction with any person, to alter, amend, or revoke, or where the decedent relinquished any such power in contemplation of his death, except in case of a bona fide sale for an adequate and full consideration in money or money's worth.

(2) For the purposes of this subdivision the power to alter, amend, or revoke shall be considered to exist on the date of the decedent's death even though the exercise of the power is subject to a precedent giving of notice or even though the alteration, amendment, or revocation takes effect only on the expiration of a stated period after the exercise of the power, whether or not on or before the date of the decedent's death notice has been given or the power has been exercised. In such cases proper adjustment shall be made representing the interests which would have been excluded from the power if the decedent had lived, and for such purpose if the notice has not been given

or the power has not been exercised on or before the date of his death, such notice shall be considered to have been given, or the power exercised on the date of his death.

(5) The relinquishment of any such power, not admitted or shown to have been in contemplation of the decedent's death, made within two years prior to his death but after the enactment of this Act without such a consideration and affecting the interest or interests (whether arising from one or more transfers or the creation of one or more trusts) of any one beneficiary of a value or aggregate value, at the time of such death, in excess of \$5,000, then, to the extent of such excess, such relinquishment or relinquishments shall be shall, unless shown to the contrary, be deemed to have been made in contemplation of death within the meaning of this title;

1 **SEC. 402. PRIOR TAXED PROPERTY.**

2 *Paragraph (2) of subdivision (a) and paragraph*  
 3 *(2) of subdivision (b) of section 303 of the Revenue Act*  
 4 *of 1926 are amended by inserting before the period at the*  
 5 *end of the second sentence of each such paragraph a comma*  
 6 *and the following: "and only if in determining the value*  
 7 *of the net estate of the prior decedent no deduction was*  
 8 *allowable under this paragraph in respect of the property*  
 9 *or property given in exchange therefor".*

NOTE.—Section 303 (a) (2) and 303 (b) (2) of the Revenue Act of 1926 will, after the above insert, read as follows:

SEC. 303. For the purpose of the tax the value of the net estate shall be determined—

(a) in the case of a nonresident by deducting from the value of the gross estate—

\* \* \* \* \*

(2) An amount equal to the value of any property (A) forming a part of the gross estate situated in the United States of any person who died within five years prior to the death of the decedent, or (B) transferred to the decedent by gift within five years prior to his death, where such property can be identified as having been received by the decedent from the donor by gift, or from such prior decedent by gift, bequest, devise, or inheritance, or which can be identified as having been acquired in exchange for property so received. This deduction shall be allowed only where a gift tax imposed under the Revenue Act of 1932, or an estate tax imposed under this or any prior Act of Congress, was finally determined and paid by or on behalf of such donor, or the estate of such prior decedent, as the case may be, and only in the amount finally determined as the value of such property in determining the value of the gift, or the gross estate of such prior decedent, and only to the extent that the value of such property is included in the decedent's gross estate estate, and only if in determining the value of the net estate of the prior decedent no deduction was allowable under this paragraph in

*respect of the property or property given in exchange therefor.* Where a deduction was allowed of any mortgage or other lien in determining the gift tax, or the estate tax of the prior decedent, which was paid in whole or in part prior to the decedent's death, then the deduction allowable under this paragraph shall be reduced by the amount so paid. The deduction allowable under this paragraph shall be reduced by an amount which bears the same ratio to the amounts allowed as deductions under paragraphs (1), (3), and (4) of this subdivision as the amount otherwise deductible under this paragraph bears to the value of the decedent's gross estate. Where the property referred to in this paragraph consists of two or more items the aggregate value of such items shall be used for the purpose of computing the deduction.

(b) In the case of a nonresident, by deducting from the value of that part of his gross estate which at the time of his death is situated in the United States—

(2) An amount equal to the value of any property (A) forming a part of the gross estate situated in the United States of any person who died within five years prior to the death of the decedent, or (B) transferred to the decedent by gift within five years prior to his death, where such property can be identified as having been received by the decedent from the donor by gift, or from such prior decedent by gift, bequest, devise, or inheritance, or which can be identified as having been acquired in exchange for property so received. This deduction shall be allowed only where a gift tax imposed under the Revenue Act of 1932, or an estate tax imposed under this or any prior Act of Congress, was finally determined and paid by or on behalf of such donor, or the estate of such prior decedent, as the case may be, and only in the amount finally determined as the value of such property in determining the value of the gift, or the gross estate of such prior decedent, and only to the extent that the value of such property is included in that part of the decedent's gross estate which at the time of his death is situated in the United States, and only if in determining the value of the net estate of the prior decedent no deduction was allowable under this paragraph in respect of the property or property given in exchange therefor. Where a deduction was allowed of any mortgage or other lien in determining the gift tax, or the estate tax of the prior decedent, which was paid in whole or in part prior to the decedent's death, then the deduction allowable under this paragraph shall be reduced by the amount so paid. The deduction allowable under this paragraph shall be reduced by an amount which bears the same ratio to the amounts allowed as deductions under paragraphs (1) and (3) of this subdivision as the amount otherwise deductible under this paragraph bears to the value of that part of the decedent's gross estate which at the time of his death is situated in the United States. Where the property referred to in this paragraph consists of two or more items the aggregate value of such items shall be used for the purpose of computing the deduction.

NOTE.—See also the amendments proposed to the above provisions by section 403 of this bill.

1 **SEC. 403. CITIZENSHIP AND RESIDENCE OF DECEDENTS.**

2 (a) Section 303(a) of the Revenue Act of 1926, as  
3 amended, is amended by striking out "In the case of a  
4 resident" and inserting in lieu thereof "In the case of a  
5 citizen or resident of the United States".

NOTE.—Section 303(a) of the Revenue Act of 1926 will, after the above amendment, read as follows:

Sec. 303. For the purpose of the tax the value of the net estate shall be determined—

(a) In the case of a *citizen or resident of the United States*, by deducting from the value of the gross estate—

(1) \* \* \*

1       (b) Section 303(b) of such Act, as amended, is  
2 amended by striking out “*In the case of a nonresident*”  
3 and inserting in lieu thereof “*In the case of a nonresident*  
4 *not a citizen of the United States*”.

NOTE.—Section 303(b) of the Revenue Act of 1926 will, after the above amendment, read as follows:

(b) In the case of a nonresident *not a citizen of the United States*, by deducting from the value of that part of his gross estate which at the time of his death is situated in the United States—

(1) \* \* \*

5       (c) Section 303(c) of such Act, as amended, is  
6 amended by striking out “*in the case of a nonresident*”  
7 and inserting in lieu thereof “*in the case of a nonresident*  
8 *not a citizen of the United States*”.

NOTE.—Section 303(c) of the Revenue Act of 1926 will, after the above amendment, read as follows:

(c) No deduction shall be allowed in the case of a nonresident *not a citizen of the United States* unless the executor includes in the return required to be filed under section 304 the value at the time of his death of that part of the gross estate of the nonresident not situated in the United States.

9       (d) Section 303(d) and (e) of such Act, as  
10 amended, are amended by striking out the phrase “*non-*  
11 *resident decedent*” wherever such phrase appears in such  
12 subdivisions and inserting in lieu thereof in each case “*non-*  
13 *resident not a citizen of the United States*”.

NOTE.—Section 303(d) and (e) of the Revenue Act of 1926 will, after the above amendment, read as follows:

(d) For the purpose of this title, stock in a domestic corporation owned and held by a nonresident ~~decedent~~ *not a citizen of the United States* shall be deemed property within the United States, and any property of which the decedent has made a transfer, by trust or other-



wise, within the meaning of subdivision (c) or (d) of section 302, shall be deemed to be situated in the United States, if so situated either at the time of the transfer, or at the time of the decedent's death. For the purposes of this title, a relinquishment or promised relinquishment of dower, curtesy, or of a statutory estate created in lieu of dower or curtesy, or of other marital rights in the decedent's property or estate, shall not be considered to any extent a consideration "in money or money's worth."

(e) The amount receivable as insurance upon the life of a non-resident ~~decedent not a citizen of the United States~~, and any moneys deposited with any person carrying on the banking business, by or for a nonresident ~~decedent not a citizen of the United States~~ who was not engaged in business in the United States at the time of his death, shall not, for the purpose of this title, be deemed property within the United States.

- 1       (e) Section 304(a) and (b) of such Act, as  
 2 amended, are amended by striking out "nonresident"  
 3 wherever such word appears and inserting in lieu thereof  
 4 in each case "nonresident not a citizen of the United States".

NOTE.—Section 304(a) and (b) of the Revenue Act of 1926 will, after the above amendment, read as follows:

SEC. 304. (a) The executor, within two months after the decedent's death, or within a like period after qualifying as such, shall give written notice thereof to the collector. The executor shall also, at such times and in such manner as may be required by regulations made pursuant to law, file with the collector a return under oath in duplicate, setting forth (1) the value of the gross estate of the decedent at the time of his death, or, in case of a nonresident *not a citizen of the United States*, of that part of his gross estate situated in the United States; (2) the deductions allowed under section 303; (3) the value of the net estate of the decedent as defined in section 303; and (4) the tax paid or payable thereon; or such part of such information as may at the time be ascertainable and such supplemental data as may be necessary to establish the correct tax.

(b) Return shall be made in all cases where the gross estate at the death of the decedent exceeds \$100,000, and in the case of the estate of every nonresident *not a citizen of the United States* any part of whose gross estate is situated in the United States. If the executor is unable to make a complete return as to any part of the gross estate of the decedent, he shall include in his return a description of such part and the name of every person holding a legal or beneficial interest therein, and upon notice from the collector such person shall in like manner make a return as to such part of the gross estate.

- 5       (f) Section 403 of the Revenue Act of 1932 is amended  
 6 by striking out "resident decedent" and inserting in lieu  
 7 thereof "citizen or resident of the United States".

NOTE.—Section 403 of the Revenue Act of 1932 will, after the above amendment, read as follows:

**SEC. 403. ASSESSMENT, COLLECTION, AND PAYMENT OF TAX.**

Except as provided in section 402, the tax imposed by section 401 of this Act shall be assessed, collected, and paid, in the same manner, and shall be subject to the same provisions of law (including penalties), as the tax imposed by section 301 (a) of the Revenue Act of 1926, except that in the case of a resident decedent citizen or resident of the United States a return shall be required if the value of the gross estate at the time of the decedent's death exceeds \$50,000.

1 **TITLE III—AMENDMENTS TO PRIOR ACTS AND**

2 **MISCELLANEOUS**

3 **SEC. 501. PERIOD FOR PETITION TO BOARD UNDER PRIOR ACTS.**

4 *Section 274(a) of the Revenue Act of 1926, and section*  
 5 *272(a) of the Revenue Act of 1928 and the Revenue Act of*  
 6 *1932 (relating to the period during which a taxpayer may*  
 7 *petition the Board of Tax Appeals for redetermination of a*  
 8 *deficiency), are amended by striking out "60 days" and*  
 9 *inserting in lieu thereof "90 days"; by striking out "six-*  
 10 *tieth day" and inserting in lieu thereof "ninetieth day";*  
 11 *and by striking out "60-day" and inserting in lieu thereof*  
 12 *"90-day". The amendments made by this section shall*  
 13 *apply only in respect of notices mailed after 30 days after the*  
 14 *date of the enactment of this Act.*

NOTE.—Section 274(a) of the Revenue Act of 1926, and section 272(a) of the Revenue Act of 1928 and the Revenue Act of 1932 will, after the above amendments, read as follows:

SEC. 274. (a) If in the case of any taxpayer, the Commissioner determines that there is a deficiency in respect of the tax imposed by this title, the Commissioner is authorized to send notice of such deficiency to the taxpayer by registered mail. Within 60 days 90 days after such notice is mailed (not counting Sunday as the sixtieth day ninetieth day), the taxpayer may file a petition with the Board of Tax Appeals for a redetermination of the deficiency. Except as otherwise provided in subdivision (d) or (f) of this section or in section 279, 282, or 1001, no assessment of a deficiency in respect of the tax imposed by

this title and no distraint or proceeding in court for its collection shall be made, begun, or prosecuted until such notice has been mailed to the taxpayer, nor until the expiration of such ~~60-day~~ *90-day* period, nor, if a petition has been filed with the Board, until the decision of the Board has become final. Notwithstanding the provisions of section 3224 of the Revised Statutes the making of such assessment or the beginning of such proceeding or distraint during the time such prohibition is in force may be enjoined by a proceeding in the proper court.

**(Revenue Act of 1928) SEC. 272. PROCEDURE IN GENERAL.**

**(a) Petition to Board of Tax Appeals.**—If in the case of any taxpayer, the Commissioner determines that there is a deficiency in respect of the tax imposed by this title, the Commissioner is authorized to send notice of such deficiency to the taxpayer by registered mail. Within ~~60 days~~ *90 days* after such notice is mailed (not counting Sunday as the ~~sixtieth day~~ *ninetieth day*), the taxpayer may file a petition with the Board of Tax Appeals for a redetermination of the deficiency. No assessment of a deficiency in respect of the tax imposed by this title and no distraint or proceeding in court for its collection shall be made, begun, or prosecuted until such notice has been mailed to the taxpayer, nor until the expiration of such ~~60-day~~ *90-day* period, nor, if a petition has been filed with the Board, until the decision of the Board has become final. Notwithstanding the provisions of section 3224 of the Revised Statutes the making of such assessment or the beginning of such proceeding or distraint during the time such prohibition is in force may be enjoined by a proceeding in the proper court.

For exceptions to the restrictions imposed by this subsection, see—

- (1) Subsection (d) of this section, relating to waivers by the taxpayer;
- (2) Subsection (f) of this section, relating to notifications of mathematical errors appearing upon the face of the return;
- (3) Section 273, relating to jeopardy assessments;
- (4) Section 274, relating to bankruptcy and receiverships; and
- (5) Section 1001 of the Revenue Act of 1926, as amended, relating to assessment or collection of the amount of the deficiency determined by the Board pending court review.

**(Revenue Act of 1932) SEC. 272. PROCEDURE IN GENERAL.**

**(a) PETITION TO BOARD OF TAX APPEALS.**—If in the case of any taxpayer, the Commissioner determines that there is a deficiency in respect of the tax imposed by this title, the Commissioner is authorized to send notice of such deficiency to the taxpayer by registered mail. Within ~~60 days~~ *90 days* after such notice is mailed (not counting Sunday as the ~~sixtieth day~~ *ninetieth day*), the taxpayer may file a petition with the Board of Tax Appeals for a redetermination of the deficiency. No assessment of a deficiency in respect of the tax imposed by this title and no distraint or proceeding in court for its collection shall be made, begun, or prosecuted until such notice has been mailed to the taxpayer, nor until the expiration of such ~~60-day~~ *90-day* period, nor, if a petition has been filed with the Board, until the decision of the Board has become final. Notwithstanding the provisions of section 3224 of the Revised Statutes the making of such assessment or the beginning of such proceeding or distraint during the time such prohibition is in force may be enjoined by a proceeding in the proper court.

For exceptions to the restrictions imposed by this subsection, see—

- (1) Subsection (d) of this section, relating to waivers by the taxpayer;
- (2) Subsection (f) of this section, relating to notifications of mathematical errors appearing upon the face of the return;
- (3) Section 273, relating to jeopardy assessments;
- (4) Section 274, relating to bankruptcy and receiverships; and
- (5) Section 1001 of the Revenue Act of 1926, as amended, relating to assessment or collection of the amount of the deficiency determined by the Board pending court review.

1 **SEC. 502. RECOVERY OF AMOUNTS ERRONEOUSLY REFUNDED.**

2 (a) *Section 610 of the Revenue Act of 1928 is amended*  
 3 *by adding at the end thereof a new subsection to read as*  
 4 *follows:*

5 “(c) *Despite the provisions of subsections (a) and*  
 6 *(b) such suit may be brought at any time within five years*  
 7 *from the making of the refund if it appears that any part*  
 8 *of the refund was induced by fraud or the misrepresentation*  
 9 *of a material fact.”*

10 (b) *The amendment made by subsection (a) of this*  
 11 *section shall not apply to any suit which was barred at the*  
 12 *time of the enactment of this Act.*

NOTE.—Section 610 of the Revenue Act of 1928 will, after the addition of the new subsection, read as follows:

**SEC. 610. RECOVERY OF AMOUNTS ERRONEOUSLY REFUNDED.**

(a) Any portion of an internal-revenue tax (or any interest, penalty, additional amount, or addition to such tax) refund of which is erroneously made, within the meaning of section 608, after the enactment of this Act, may be recovered by suit brought in the name of the United States, but only if such suit is begun within two years after the making of such refund.

(b) Any portion of an internal-revenue tax (or any interest, penalty, additional amount, or addition to such tax) which has been erroneously refunded (if such refund would not be considered as erroneous under section 608) may be recovered by suit brought in the name of the United States, but only if such suit is begun before the expiration of two years after the making of such refund or before May 1, 1928, whichever date is later.

(c) *Despite the provisions of subsections (a) and (b) such suit may be brought at any time within five years from the making of the refund if it appears that any part of the refund was induced by fraud or the misrepresentation of a material fact.*

13 **SEC. 503. STATUTE OF LIMITATIONS ON SUITS FOR REFUND.**

14 *Section 608(b)(2) of the Revenue Act of 1928 is*  
 15 *amended by adding at the end thereof a new sentence to read*  
 16 *as follows: “If such agreement has been entered into, the*

1 *running of such statute of limitations shall be suspended in*  
 2 *accordance with the terms of the agreement."*

NOTE.—Section 608 of the Revenue Act of 1928 will, after the addition of the new sentence, read as follows:

**SEC. 608. EFFECT OF EXPIRATION OF PERIOD OF LIMITATION AGAINST TAXPAYER.**

A refund of any portion of an internal-revenue tax (or any interest, penalty, additional amount, or addition to such tax) made after the enactment of this Act, shall be considered erroneous—

(a) if made after the expiration of the period of limitation for filing claim therefor, unless within such period claim was filed; or

(b) in the case of a claim filed within the proper time and disallowed by the Commissioner after the enactment of this Act, if the refund was made after the expiration of the period of limitation for filing suit, unless—

(1) within such period suit was begun by the taxpayer, or

(2) within such period, the taxpayer and the Commissioner agreed in writing to suspend the running of the statute of limitations for filing suit from the date of the agreement to the date of final decision in one or more named cases then pending before the United States Board of Tax Appeals or the courts. *If such agreement has been entered into the running of such statute of limitations shall be suspended in accordance with the terms of the agreement.*

3 **SEC. 504. OVERPAYMENTS FOUND BY THE BOARD OF TAX**

4 **APPEALS.**

5 (a) *The last sentence of section 322(d) of the Revenue*  
 6 *Act of 1932 and of the Revenue Act of 1928 and of section*  
 7 *528(d) of the Revenue Act of 1932 are amended to read*  
 8 *as follows: "No such credit or refund shall be made of*  
 9 *any portion of the tax unless the Board determines as part*  
 10 *of its decision that it was paid within three years before*  
 11 *the filing of the claim or the filing of the petition, whichever*  
 12 *is earlier."*

NOTE.—Section 322 (d) of the Revenue Act of 1932 and of the Revenue Act of 1928 will, after the above amendment, read as follows:

(d) OVERPAYMENT FOUND BY BOARD.—If the Board finds that there is no deficiency and further finds that the taxpayer has made an overpayment of tax in respect of the taxable year in respect of which the Commissioner determined the deficiency, the Board shall have jurisdiction to determine the amount of such overpayment, and such amount shall, when the decision of the Board has become final, be credited or refunded to the taxpayer. No such credit or refund shall be

made of any portion of the tax *unless the Board determines as part of its decision that it was paid more than two within three years before the filing of the claim or the filing of the petition, whichever is earlier.*

Section 528 (d) of the Revenue Act of 1932 will, after the above amendment, read as follows:

(d) OVERPAYMENT FOUND BY BOARD.—If the Board finds that there is no deficiency and further finds that the taxpayer has made an overpayment of tax in respect of the taxable year in respect of which the Commissioner determined the deficiency, the Board shall have jurisdiction to determine the amount of such overpayment, and such amount shall, when the decision of the Board has become final, be credited or refunded to the taxpayer. No such credit or refund shall be made of any portion of the tax *unless the Board determines as part of its decision that it was paid more than within three years before the filing of the claim or the filing of the petition, whichever is earlier.*

- 1           (b) *The last sentence of section 284(e) of the Revenue*  
 2 *Act of 1926, as amended, is amended to read as follows:*  
 3 *"Unless the Board determines as part of its decision that*  
 4 *the claim for credit or refund, or the petition, was filed*  
 5 *within the time prescribed in subdivision (g) for filing*  
 6 *claims, no such credit or refund shall be made of any por-*  
 7 *tion of the tax unless the Board determines as part of its*  
 8 *decision that it was paid within four years (or, in the case*  
 9 *of a tax imposed by this title, within three years) before the*  
 10 *filing of the claim or the filing of the petition, whichever*  
 11 *is earlier."*

NOTE.—Section 284 (e) of the Revenue Act of 1926 will, after the above amendment, read as follows:

(e) If the Board finds that there is no deficiency and further finds that the taxpayer has made an overpayment of tax in respect of the taxable year in respect of which the Commissioner determined the deficiency, the Board shall have jurisdiction to determine the amount of such overpayment, and such amount shall, when the decision of the Board has become final, be credited or refunded to the taxpayer as provided in subdivision (a). *Unless claim for credit or refund, or the petition, was filed within the time prescribed in subdivision (g) for filing claims, no such credit or refund shall be made of any portion of the tax paid more than four years (or, in the case of a tax imposed by this title, more than three years) before the filing of the claim or the filing of the petition, whichever is earlier. Unless the Board determines as part of its decision that the claim for credit or refund, or the petition, was filed within the time prescribed in subdivision (g) for filing claims, no such credit or refund shall be made of any portion of the tax unless the Board determines as part of its decision that it was paid within four years (or, in the case of a tax imposed by this title, within three years) before the filing of the claim or the filing of the petition, whichever is earlier.*

1           (c) *The last sentence of section 319(c) of the Revenue*  
 2 *Act of 1926, as amended, is amended to read as follows:*  
 3 *“No such refund shall be made of any portion of the tax*  
 4 *unless the Board determines as part of its decision that it*  
 5 *was paid within four years (or, in the case of a tax imposed*  
 6 *by this title, within three years) before the filing of the claim*  
 7 *or the filing of the petition, whichever is earlier.”*

**NORM.**—Section 319 (c) of the Revenue Act of 1926, as amended, will, after the above amendment, read as follows:

(c) If the Board finds that there is no deficiency and further finds that the executor has made an overpayment of tax, the Board shall have jurisdiction to determine the amount of such overpayment, and such amount shall, when the decision of the Board has become final, be credited or refunded to the executor as provided in section 3220 of the Revised Statutes, as amended. No such refund shall be made of any portion of the tax paid ~~more than~~ *unless the Board determines as part of its decision that it was paid within four years (or, in the case of a tax imposed by this title, more than within three years) before the filing of the claim or the filing of the petition, whichever is earlier.*

8           (d) *The amendments made by subsections (a), (b),*  
 9 *and (c) of this section shall have no effect in the case of any*  
 10 *proceeding before the Board on a petition if any hearing by*  
 11 *the Board thereon has been held prior to 30 days after the*  
 12 *date of the enactment of this Act.*

13 **SEC. 505. BANKRUPTCY AND RECEIVERSHIPS.**

14           (a) *Section 274(a) of the Revenue Act of 1932 and*  
 15 *the Revenue Act of 1928 and section 282(a) of the Revenue*  
 16 *Act of 1926 are amended by inserting after the first sentence*  
 17 *thereof the following:*  
 18 *“In such cases the trustee in bankruptcy or receiver shall*  
 19 *give notice in writing to the Commissioner of the adjudi-*  
 20 *cation of bankruptcy or the appointment of the receiver, and*

1 *the running of the statute of limitations on the making of*  
 2 *assessments shall be suspended for the period from the date*  
 3 *of adjudication in bankruptcy or the appointment of the*  
 4 *receiver to a date 30 days after the date upon which the*  
 5 *notice from the trustee or receiver is received by the Com-*  
 6 *missioner; but the suspension under this sentence shall in no*  
 7 *case be for a period in excess of two years."*

NOTE.—Section 274(a) of the Revenue Act of 1932 and the Revenue Act of 1928 will, after the above insertion, read as follows:

(a) IMMEDIATE ASSESSMENT.—Upon the adjudication of bankruptcy of any taxpayer in any bankruptcy proceeding or the appointment of a receiver for any taxpayer in any receivership proceeding before any court of the United States or of any State or Territory or of the District of Columbia, any deficiency (together with all interest, additional amounts, or additions to the tax provided for by law) determined by the Commissioner in respect of a tax imposed by this title upon such taxpayer shall, despite the restrictions imposed by section 272(a) upon assessments be immediately assessed if such deficiency has not theretofore been assessed in accordance with law. *In such cases the trustee in bankruptcy or receiver shall give notice in writing to the Commissioner of the adjudication of bankruptcy or the appointment of the receiver, and the running of the statute of limitations on the making of assessments shall be suspended for the period from the date of adjudication in bankruptcy or the appointment of the receiver to a date 30 days after the date upon which the notice from the trustee or receiver is received by the Commissioner; but the suspension under this sentence shall in no case be for a period in excess of two years.* Claims for the deficiency and such interest, additional amounts and additions to the tax may be presented, for adjudication in accordance with law, to the court before which the bankruptcy or receivership proceeding is pending, despite the pendency of proceedings for the redetermination of the deficiency in pursuance of a petition to the Board; but no petition for any such redetermination shall be filed with the Board after the adjudication of bankruptcy or the appointment of the receiver.

Section 282(a) of the Revenue Act of 1926 will, after the above insertion, read as follows:

SEC. 282. (a) Upon the adjudication of bankruptcy of any taxpayer in any bankruptcy proceeding or the appointment of a receiver for any taxpayer in any receivership proceeding before any court of the United States or of any State or Territory or of the District of Columbia, any deficiency (together with all interest, additional amounts, or additions to the tax provided for by law) determined by the Commissioner in respect of a tax imposed by this title upon such taxpayer shall, despite the provisions of subdivision (a) of section 274, be immediately assessed if such deficiency has not theretofore been assessed in accordance with law. *In such cases the trustee in bankruptcy or receiver shall give notice in writing to the Commissioner of the adjudication of bankruptcy or the appointment of the receiver, and the running of the statute of limitations on the making of assessments shall be suspended for the period from the date of adjudication in bankruptcy*



*or the appointment of the receiver to a date 30 days after the date upon which the notice from the trustee or receiver is received by the Commissioner; but the suspension under this sentence shall in no case be for a period in excess of two years. Claim for the deficiency and such interest, additional amounts and additions to the tax may be presented, for adjudication in accordance with law, to the court before which the bankruptcy or receivership proceeding is pending, despite the pendency of proceedings for the redetermination of the deficiency in pursuance of a petition to the Board; but no petition for any such redetermination shall be filed with the Board after the adjudication of bankruptcy or the appointment of the receiver.*

1        *(b) The amendments made by subsection (a) shall not*  
 2 *apply in any case in which the adjudication has occurred,*  
 3 *or the receiver has been appointed, prior to the date of the*  
 4 *enactment of this Act.*

5 **SEC. 506. RETROACTIVITY OF REGULATIONS, RULINGS, ETC.**

6        *Section 1108 of the Revenue Act of 1926, as amended,*  
 7 *is amended to read as follows:*

8        *"SEC. 1108. The Secretary, or the Commissioner with*  
 9 *the approval of the Secretary, may prescribe the extent, if*  
 10 *any, to which any ruling, regulation, or Treasury Decision,*  
 11 *relating to the internal revenue laws, shall be applied without*  
 12 *retroactive effect."*

NOTE.—Section 1108 of the Revenue Act of 1926, as amended, which is amended by this section, reads as follows:

SEC. 1108. (a) In case a regulation or Treasury decision relating to the internal-revenue laws is amended by a subsequent regulation or Treasury decision, made by the Secretary or by the Commissioner with the approval of the Secretary, such subsequent regulation or Treasury decision may, with the approval of the Secretary, be applied without retroactive effect.

(b) No tax shall be levied, assessed, or collected under the provisions of Title VI of this Act on any article sold or leased by the manufacturer, producer, or importer, if at the time of the sale or lease there was an existing ruling, regulation, or Treasury decision holding that the sale or lease of such article was not taxable, and the manufacturer, producer, or importer parted with possession or ownership of such article, relying upon the ruling, regulation, or Treasury decision.

**1 SEC. 507. EXAMINATION OF BOOKS AND WITNESSES.**

2       *The Commissioner, for the purpose of determining the*  
3 *liability at law or in equity of a transferee of the property*  
4 *of any person with respect to any Federal taxes imposed*  
5 *upon such person, is hereby authorized, by any officer or*  
6 *employee of the Bureau of Internal Revenue, including the*  
7 *field service, designated by him for that purpose, to examine*  
8 *any books, papers, records, or memoranda bearing upon*  
9 *such liability, and may require the attendance of the trans-*  
10 *feror or transferee, or of any officer or employee of such*  
11 *person, or the attendance of any other person having knowl-*  
12 *edge in the premises, and may take his testimony with*  
13 *reference to the matter, with power to administer oaths to*  
14 *such person or persons.*

**15 SEC. 508. SALE OF PERSONAL PROPERTY UNDER DISTRAINT.**

16       *Section 3192 of the Revised Statutes is amended to*  
17 *read as follows:*

18       “**SEC. 3192.** When any property advertised for sale  
19 under distraint, as aforesaid, is of a kind subject to tax, and  
20 the tax has not been paid, and the amount bid for such  
21 property is not equal to the amount of the tax, the collector  
22 may purchase the same in behalf of the United States for an  
23 amount not exceeding the said tax. All property so pur-  
24 chased may be sold by the collector, under such regulations  
25 as may be prescribed by the Commissioner of Internal

1 Revenue. The collector shall render to the Commissioner a  
2 distinct account of all charges incurred in such sales, and,  
3 in case of sale, shall pay into the Treasury the surplus,  
4 if any there be, after defraying all lawful charges and  
5 fees. When any personal property is advertised for sale  
6 under distraint as aforesaid, the officer making the seizure  
7 shall proceed to sell such property at a public auction,  
8 offering the same at a minimum price, including the expenses  
9 of making the levy and of advertising the sale, and if the  
10 amount bid for such property at the sale is not equal to the  
11 minimum price so fixed, the officer conducting the sale may  
12 declare the same to be purchased by him for the United States.  
13 The property so purchased may be sold by the collector within  
14 whose district the sale was made under such regulations as  
15 may be prescribed by the Commissioner of Internal Revenue,  
16 with the approval of the Secretary of the Treasury. The  
17 collector shall render to the Commissioner a distinct account  
18 of all charges incurred in such sales, and, in case of resale,  
19 shall pay into the Treasury the proceeds as provided in  
20 section 3210 of the Revised Statutes, as amended.”

21 **SEC. 509. DISCHARGE OF LIENS.**

22 Section 3186(c) of the Revised Statutes, as amended,  
23 is amended by adding at the end thereof the following new  
24 paragraph:

1           “(4) *May issue a certificate of discharge of any part*  
 2 *of the property subject to the lien if there is paid over to*  
 3 *the collector in part satisfaction of the taxpayer's liability*  
 4 *in respect of such tax an amount determined by the Com-*  
 5 *missioner to be equal to the fair market value of the taxpayer's*  
 6 *equity in the part to be so discharged.”*

NOTE.—Section 3186(c) of the Revised Statutes will, after the above amendment, read as follows:

(c) Subject to such regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may prescribe, the collector of internal revenue charged with an assessment in respect of any tax—

(1) May issue a certificate of release of the lien if the collector finds that the liability for the amount assessed, together with all interest in respect thereof, has been satisfied or has become unenforceable;

(2) May issue a certificate of release of the lien if there is furnished to the collector and accepted by him a bond that is conditioned upon the payment of the amount assessed, together with all interest in respect thereof, within the time prescribed by law (including any extension of such time), and that is in accordance with such requirements relating to terms, conditions, and form of the bond and sureties thereon, as may be specified in the regulations;

(3) May issue a certificate of partial discharge of any part of the property subject to the lien if the collector finds that the fair market value of that part of such property remaining subject to the lien is at least double the amount of the liability remaining unsatisfied in respect of such tax and the amount of all prior liens upon such property.

(4) *May issue a certificate of discharge of any part of the property subject to the lien if there is paid over to the collector in part satisfaction of the taxpayer's liability in respect of such tax an amount determined by the Commissioner to be equal to the fair market value of the taxpayer's equity in the part to be so discharged.*

7   **SEC. 510. JEOPARDY ASSESSMENTS.**

8           *Section 1105 of the Revenue Act of 1932 is amended*  
 9 *to read as follows:*

10   **“SEC. 1105. JEOPARDY ASSESSMENT.**

11           **“(a) If the Commissioner finds that a person liable for**  
 12 **tax (other than income tax) under any provision of the in-**  
 13 **ternal revenue laws designs quickly to depart from the United**

1 States or to remove his property therefrom; or to conceal  
2 himself or his property therein; or to do any other act tend-  
3 ing to prejudice or to render wholly or partly ineffectual  
4 proceedings to collect such tax unless such proceedings be  
5 brought without delay, the Commissioner shall cause notice  
6 of such finding to be given such person, together with a de-  
7 mand for an immediate return and immediate payment of  
8 such tax, and such tax shall thereupon become immediately  
9 due and payable.

10 " (b) If such person (1) is not in default in making  
11 any return or paying any tax under the internal-revenue  
12 laws, and (2) furnishes to the United States, under regula-  
13 tions to be prescribed by the Commissioner with the ap-  
14 proval of the Secretary, security approved by the Commis-  
15 sioner that he will duly return and pay the tax to which the  
16 Commissioner's finding relates, then such tax shall not be  
17 payable prior to the time otherwise fixed for payment.

18 "*(a) If the Commissioner believes that the collection*  
19 *of any tax (other than income tax, estate tax, and gift*  
20 *tax) under any provision of the internal-revenue laws will*  
21 *be jeopardized by delay, he shall, whether or not the time*  
22 *otherwise prescribed by law for making return and paying*  
23 *such tax has expired, immediately assess such tax (together*  
24 *with all interest and penalties the assessment of which is*

1 provided for by law). Such tax, penalties, and interest shall  
 2 thereupon become immediately due and payable, and im-  
 3 mediate notice and demand shall be made by the collector for  
 4 the payment thereof. Upon failure or refusal to pay such  
 5 tax, penalty, and interest, collection thereof by distraint shall  
 6 be lawful without regard to the period prescribed in section  
 7 3187 of the Revised Statutes, as amended.

8 “(b) The collection of the whole or any part of the  
 9 amount of such assessment may be stayed by filing with the  
 10 collector a bond in such amount, not exceeding double the  
 11 amount as to which the stay is desired, and with such sureties,  
 12 as the collector deems necessary, conditioned upon the pay-  
 13 ment of the amount collection of which is stayed, at the  
 14 time at which, but for this section, such amount would be  
 15 due.”

16 **SEC. 511. GIFTS OF PROPERTY SUBJECT TO POWER.**

17 Subsection (c) of section 501 of the Revenue Act of  
 18 1932 (relating to the inapplicability of gift tax in the case  
 19 of the transfer of property in trust subject to the power of  
 20 the donor to revest title in himself) is repealed.

NOTE.—Section 501 (c) of the Revenue Act of 1932, repealed by the above provision, reads as follows:

(c) The tax shall not apply to a transfer of property in trust where the power to revest in the donor title to such property is vested in the donor, either alone or in conjunction with any person not having a substantial adverse interest in the disposition of such property or the income therefrom, but the relinquishment or termination of such power (other than by the donor's death) shall be considered to be a transfer by the donor by gift of the property subject to such power, and any payment of the income therefrom to a beneficiary other than the donor shall be considered to be a transfer by the donor of such income by gift.

**SEC. 512. GENERAL COUNSEL FOR THE TREASURY.**

(a) There is hereby created in the Department of the Treasury the office of General Counsel for the Department of the Treasury (hereinafter in this section referred to as the "General Counsel"). The General Counsel shall be appointed by the President, by and with the advice and consent of the Senate, and shall receive compensation at the rate of \$10,000 per annum. The General Counsel shall be the chief law officer of the Department, and shall perform such duties in respect of the legal activities thereof as may be prescribed by the Secretary or required by law. The Secretary may appoint and fix the duties of such Assistant General Counsel (not to exceed six) and such other officers and employees as he may deem necessary to assist the General Counsel in the performance of his duties. The Secretary may designate one of such Assistant General Counsel to act as the General Counsel during the absence of the General Counsel. The General Counsel is authorized to delegate to any Assistant General Counsel any authority, duty, or function which he is authorized or required to exercise or perform. The Assistant General Counsel provided for in this subsection may be appointed and compensated without regard to the provisions of the Classification Act of 1923, as amended, and the Civil Service laws, and shall receive compensation at such rate (not in excess of \$10,000

1 *per annum) as may be fixed by the Secretary. The rate*  
2 *of compensation of any person appointed under the pro-*  
3 *visions of this subsection shall be subject to the reduction*  
4 *applicable to officers and employees of the Federal Govern-*  
5 *ment generally.*

6 *(b) The offices of General Counsel for the Bureau*  
7 *of Internal Revenue, Assistant General Counsel for the*  
8 *Bureau of Internal Revenue, Solicitor of the Treasury,*  
9 *and Assistant Solicitor of the Treasury are hereby abolished.*  
10 *The powers, duties, and functions of such offices are hereby*  
11 *transferred to the General Counsel. This subsection shall*  
12 *take effect when the General Counsel first appointed under*  
13 *subsection (a) qualifies and takes office.*

14 *(c) Nothing in this section shall be construed to affect*  
15 *the duties, powers, or functions imposed upon, or vested in,*  
16 *the Department of Justice, or any officer thereof, by existing*  
17 *law.*

18 **SEC. 513. ASSISTANTS IN THE TREASURY.**

19 *The Secretary of the Treasury is authorized (without*  
20 *regard to the Classification Act of 1923, as amended, and*  
21 *the Civil Service laws), to appoint and fix the compensation*  
22 *of ten assistants at rates of compensation of not to exceed*  
23 *\$10,000 per annum, but the rates so fixed shall be subject*  
24 *to the reduction applicable to officers and employees of the*



1 *Federal Government generally. The Secretary is author-*  
2 *ized to delegate to such assistants any authority, duty, or*  
3 *function which he is authorized or required to exercise or*  
4 *perform. Whenever the President declares by Executive*  
5 *order that the emergency requiring the appointments under*  
6 *this section has ceased to exist, the persons appointed under*  
7 *this section shall cease to hold office under this section, and the*  
8 *power of the Secretary under this section shall terminate.*

9 **SEC. 514. PENALTIES AND AWARDS TO INFORMERS WITH RE-**  
10 **SPECT TO ILLEGALLY PRODUCED PETROLEUM.**

11 (a) *Any person liable for tax on any income from*  
12 *illegally produced petroleum, who wilfully fails to make*  
13 *return showing such income within the time prescribed by*  
14 *law or 30 days after the enactment of this Act, whichever*  
15 *expires later, shall, in addition to all other penalties pre-*  
16 *scribed by law, be liable to a civil penalty of \$500 plus*  
17 *\$50 for each day during which such failure continues.*

18 (b) *Any person not an officer of the United States*  
19 *who furnishes to the Commissioner or any collector original*  
20 *information leading to the recovery from any other person*  
21 *of any penalty under this section may be awarded and paid*  
22 *by the Commissioner a compensation of one-half the penalty*  
23 *so recovered, as determined by the Commissioner.*

1       (c) As used in this section, the term "income from  
2 illegally produced petroleum" means any income (not  
3 shown on a return made within the time prescribed by law  
4 or 30 days after the enactment of this Act, whichever expires  
5 later) arising out of any sale or purchase of crude petroleum  
6 withdrawn from the ground subsequent to January 1, 1932,  
7 in violation of any State or Federal law (not including  
8 withdrawal in violation of any code of fair competition  
9 approved under the National Industrial Recovery Act or  
10 illegal withdrawal the penalties for which have been miti-  
11 gated or satisfied in pursuance of law prior to the enactment  
12 of this Act), or arising out of any fee derived from acting  
13 as agent for any seller or purchaser in connection with a  
14 sale or purchase of such petroleum or products thereof, or  
15 any amount illegally received by any person charged with  
16 the enforcement of law with respect to such petroleum or  
17 products thereof.

18 **SEC. 515. POSTAL RATES.**

19       Section 1001(a), as amended, of the Revenue Act  
20 of 1932, and section 2 of the Act entitled "An Act To extend  
21 the gasoline tax for one year, to modify postage rates on  
22 mail matter, and for other purposes", approved June 16,  
23 1933, are amended by striking out "1934" wherever such  
24 date appears and inserting in lieu thereof "1935",

NOTE.—Section 1001(a), as amended, of the Revenue Act of 1932 will, after the above amendment, read as follows:

**SEC. 1001. POSTAL RATES.**

(a) On and after the thirtieth day after the date of the enactment of this Act and until July 1, 1934 1935, the rate of postage on all mail matter of the first class (except postal cards and private mailing or post cards, and except other first class matter on which the rate of postage under existing law is 1 cent for each ounce or fraction thereof) shall be 1 cent for each ounce or fraction thereof in addition to the rate provided by existing law: *Provided*, That such additional rate shall not apply on or after July 1, 1933, to first-class matter mailed for local delivery.

Section 2 of the Act entitled "An Act to extend the gasoline tax for one year, to modify postage rates on mail matter, and for other purposes", approved June 16, 1933, will, after the above amendment, read as follows:

SEC. 2. The President is authorized during the period ending June 30, 1934 1935, to proclaim such modifications of postage rates on mail matter (except that in the case of first-class matter the rate shall not be reduced to less than 2 cents an ounce or fraction thereof) as, after a survey by him, he may deem advisable by reason of increase in business, the interests of the public, or the needs of the Postal Service, and such modifications shall be in effect on and after such date as he shall proclaim and until July 1, 1934 1935. In case a modification of the rate of postage on first-class matter is proclaimed, the President shall also make a corresponding modification in the percentages of gross postal receipts specified in section 1001(c) of the Revenue Act of 1932 as amended by this Act, which percentages shall be in effect during the period such modification of the rate of postage on first-class matter is in effect. Nothing in this section shall be construed as giving the President authority to change the rate fixed by law on first-class matter mailed for local delivery, postal cards, and private mailing or post cards.

**TITLE IV—EXCISE TAXES**

**SEC. 601. FRUIT JUICE TAX.**

*Subsection (a) of section 615 of the Revenue Act of 1932 (relating to the tax on soft drinks) is amended as follows:*

*(a) Paragraph (2) thereof is repealed;*

*(b) Paragraph (3) thereof is amended to read as follows:*

*"(2) Upon all imitations of unfermented fruit juices (except grape juice), in natural or slightly concentrated form (as distinguished from finished or four-*

1     tain syrups), intended for consumption as beverages  
 2     with the addition of water or water and sugar, and  
 3     upon all carbonated beverages, commonly known as  
 4     soft drinks (except those described in paragraph (1)),  
 5     manufactured, compounded, or mixed by the use of  
 6     concentrate, essence, or extract, instead of a finished  
 7     or fountain syrup, sold by manufacturer, producer, or  
 8     importer, a tax of 2 cents per gallon.”; and  
 9     (c) Paragraph (4) thereof is amended by striking  
 10    out “(except grape juice)”, and by striking out “pure  
 11    apple cider” and inserting in lieu thereof “fruit juices”.

NOTE.—Paragraphs (2), (3), and (4) of section 615 (a) of the Revenue Act of 1932 will, after the above amendments, read as follows:

**SEC. 615. TAX ON SOFT DRINKS.**

(a) There is hereby imposed—

\* \* \* \* \*

(2) Upon unfermented grape juice, in natural or concentrated form (whether or not sugar has been added), containing 35 per centum or less of sugars by weight, sold by the manufacturer, producer, or importer, a tax of 5 cents per gallon.

(3) (2) Upon all imitations of unfermented fruit juices (except grape juice), in natural or slightly concentrated form, or such fruit juices to which sugar has been added form (as distinguished from finished or fountain syrups), intended for consumption as beverages with the addition of water or water and sugar, and upon all imitations of any such fruit juices, and upon all carbonated beverages, commonly known as soft drinks (except those described in paragraph (1)), manufactured, compounded, or mixed by the use of concentrate, essence, or extract, instead of a finished or fountain syrup, sold by manufacturer, producer, or importer, a tax of 2 cents per gallon.

(4) Upon all still drinks (except grape juice), containing less than one-half of 1 per centum of alcohol by volume, intended for consumption as beverages in the form in which sold (except natural or artificial mineral and table waters and imitations thereof, and pure apple cider fruit juices), sold by the manufacturer, producer, or importer, a tax of 2 cents per gallon.

12    **SEC. 602. TAX ON CERTAIN OILS.**

13     (a) There is hereby imposed upon the first domestic  
 14    processing of coconut oil or sesame oil, or of combinations or

1 mixtures brought into the United States in chief value of  
2 either or both such oils, a tax of 5 cents for each pound  
3 thereof processed, which shall be paid by the processor.  
4 For the purposes of this section, the term "first domestic  
5 processing" means the first use in the United States, in the  
6 manufacture or production of an article intended for sale,  
7 of the article with respect to which the tax is imposed.

8 (b) Each processor required to pay the tax imposed by  
9 his section shall make monthly returns under oath in dupli-  
10 cate and pay the tax to the collector of internal revenue  
11 for the district in which is located his principal place of  
12 business, or if he has no place of business in the United  
13 States, then to the collector of internal revenue at Balti-  
14 more, Maryland. Such returns shall contain such infor-  
15 mation and be made at such times and in such manner as the  
16 Commissioner of Internal Revenue, with the approval of the  
17 Secretary of the Treasury, may by regulations prescribe.  
18 The tax shall, without assessment by the Commissioner or  
19 notice from the collector, be due and payable to the collector  
20 at the time so fixed for filing the return. If the tax is not  
21 paid when due, there shall be added as part of the tax interest  
22 at the rate of 1 per centum per month from the time the  
23 tax became due until paid.

24 (c) Subject to such rules and regulations as the Com-  
25 missioner, with the approval of the Secretary, may prescribe,

1 any person who has sold to a State, or political subdivision  
2 thereof, for use in the exercise of an essential governmental  
3 function any article containing any such oil, combination,  
4 or mixture, upon the processing of which a tax has been  
5 paid under this section shall be entitled to a credit or refund  
6 of the tax paid with respect to the quantity of such oil, com-  
7 bination, or mixture contained in such article.

8 (d) Upon the exportation to any foreign country or  
9 to a possession of the United States of any article wholly  
10 or in chief value of an article with respect to the processing  
11 of which a tax has been paid under this section, the ex-  
12 porter thereof shall be entitled to a refund of the amount  
13 of such tax. Upon the giving of bond satisfactory to the  
14 Secretary for faithful observance of the provisions of this  
15 section requiring the payment of taxes, any person shall  
16 be entitled, without payment of the tax, to process for such  
17 exportation any article with respect to which a tax is im-  
18 posed by this section.

19 (e) If (1) any person has, prior to January 26,  
20 1934, made a bona fide contract for the sale on or after  
21 the effective date of this section of any article wholly or  
22 in chief value of an article with respect to which a tax is im-  
23 posed by this section or of any article with respect to which a  
24 tax is imposed by this subsection, and if (2) such contract  
25 does not permit the addition to the amount to be paid

1 thereunder of the whole of such tax, then (unless the con-  
2 tract expressly prohibits such addition) the amount to be  
3 paid thereunder of the whole of such tax, then (unless  
4 the contract expressly prohibits such addition) the vendee  
5 shall pay so much of the tax as is not permitted to be  
6 added to the contract price. Taxes payable by the vendee  
7 shall be paid to the vendor at the time the sale is con-  
8 summated and shall be returned and paid to the United  
9 States by the vendor in the same manner as other taxes  
10 under this section. In case of failure or refusal by the  
11 vendee to pay such taxes to the vendor, the vendor shall  
12 report the facts to the Commissioner, who shall cause col-  
13 lection of such taxes to be made from the vendee.

14 (f) All provisions of law (including penalties) appli-  
15 cable in respect of taxes imposed by section 600 of the Revenue  
16 Act of 1926 shall, insofar as applicable and not inconsistent  
17 with this section, be applicable in respect of the taxes imposed  
18 by this section.

19 (g) All collections under this section shall, notwith-  
20 standing any other provisions of law, be covered into  
21 the general fund of the Treasury of the United States.

22 **SEC. 603. TAXES ON LUBRICATING OIL AND GASOLINE.**

23 (a) Effective on the thirtieth day after the date of the  
24 enactment of this Act, the second sentence of section  
25 601(c)(1) of the Revenue Act of 1932, as amended, is

1 amended to read as follows: " Under regulations prescribed  
2 by the Commissioner with the approval of the Secretary,  
3 no tax shall be imposed under this section upon lubricating  
4 oils sold to a manufacturer or producer of lubricating oils for  
5 resale by him; but for the purposes of this title such vendee  
6 shall be considered the manufacturer or producer of such  
7 lubricating oils. Any person to whom lubricating oils  
8 were sold tax-free under this paragraph prior to the  
9 effective date of its amendment by the Revenue Act of  
10 1934, shall be considered the manufacturer or producer  
11 of such lubricating oils. Every person liable for tax under  
12 this paragraph shall register and file bond as provided in  
13 section 617. No sale of lubricating oil after the effective  
14 date of the amendment of this paragraph by the Revenue  
15 Act of 1934 shall be tax-free under section 620 and no  
16 credit with respect to tax on any such sale shall be allowed  
17 under section 621(a)(1). A credit against tax under this  
18 paragraph, or a refund, may be allowed or made to a manu-  
19 facturer or producer with respect to the sale (after the effec-  
20 tive date of the amendment of this section by the Revenue  
21 Act of 1934) of lubricating oils if the manufacturer or  
22 producer has in his possession such evidence as the regula-  
23 tions may prescribe (1) that such lubricating oils have been  
24 used by any other person in the manufacture or production  
25 of any article upon which tax has been paid under this title



1 and (2) the manufacturer or producer has repaid or agreed  
 2 to repay the amount of such tax to his vendee or has obtained  
 3 the written consent of his vendee to the allowance of such  
 4 credit or refund."

5 (b) Effective on the thirtieth day after the enactment of  
 6 this Act, section 617 of the Revenue Act of 1932, as amended,  
 7 is further amended to read as follows:

8 "SEC. 617. TAX ON GASOLINE.

9 "(a) There is hereby imposed on gasoline sold by the  
 10 importer thereof or by a producer of gasoline, a tax of 1  
 11 cent a gallon, except that under regulations prescribed by  
 12 the Commissioner with the approval of the Secretary the  
 13 tax shall not apply in the case of sales to a producer of  
 14 gasoline.

15 "(b) If a producer or importer uses (otherwise than in  
 16 the production of gasoline) gasoline sold to him free of tax,  
 17 or produced or imported by him, such use shall for the pur-  
 18 poses of this title be considered a sale.

19 "(c) As used in this section—

20 "(1) the term "producer" includes a refiner, com-  
 21 pounder, or blender, and a dealer selling gasoline exclu-  
 22 sively to producers of gasoline, as well as a producer.

23 "(2) the term "gasoline" means gasoline, benzol, and  
 24 any other liquid the chief use of which is as a fuel for the  
 25 propulsion of motor vehicles, motor boats, or aeroplanes.

1 As used in this paragraph the term 'benzol' does not  
2 include benzol sold for use otherwise than as a fuel for the  
3 propulsion of motor vehicles, motor boats, or airplanes, and  
4 otherwise than in the manufacture or production of such  
5 fuel.

6       “(a) There is hereby imposed on gasoline sold by the  
7 producer or importer thereof, or by any producer of gaso-  
8 line, a tax of 1 cent a gallon.

9       “(b) If a producer or importer uses (otherwise than  
10 in the production of gasoline) gasoline produced or im-  
11 ported by him, such use shall for the purposes of this title  
12 be considered a sale.

13       “(c) As used in this section—

14               “(1) the term 'producer' includes only pro-  
15 ducers, refiners, compounders, and blenders; but any  
16 person who purchased gasoline free of tax under this  
17 section prior to the effective date of its amendment  
18 by the Revenue Act of 1934 shall be considered the  
19 producer of such gasoline.

20               “(2) the term 'gasoline' means (A) all products  
21 commonly or commercially known or sold as gasoline  
22 (including casinghead and natural gasoline), benzol,  
23 benzene, or naphtha, regardless of their classification  
24 or uses; and (B) any other liquid which is prepared,  
25 advertised, offered for sale or sold for use as, or used

1 as, a fuel for the propulsion of motor vehicles, motor  
2 boats, or airplanes.

3 “(d) No sale of gasoline after the effective date of  
4 the amendment of this section by the Revenue Act of 1934  
5 shall be tax-free under section 620 and no credit with  
6 respect to tax on any such sale shall be allowed under  
7 section 621(a)(1).

8 “(e) A credit against tax under this section, or a  
9 refund, may be allowed or made to a producer or importer  
10 in the amount of tax paid by him under this section with  
11 respect to the sale (after the effective date of the amendment  
12 of this section by the Revenue Act of 1934) of gasoline if  
13 the producer or importer has in his possession such evidence  
14 as the regulations may prescribe establishing that (1) such  
15 gasoline (A) has been used by any other person as material  
16 in the manufacture or production of, or as a component part  
17 of, any article upon which tax has been paid under this title  
18 or (B) has been resold and tax under this section paid on  
19 such resale or (C) (in the case of benzol only) was sold  
20 for use and used otherwise than as a fuel for the propulsion  
21 of motor vehicles, motor boats, or airplanes, and (2) the  
22 producer or importer has repaid or agreed to repay the  
23 amount of such tax to his vendee or has obtained the written  
24 consent of such vendee to the allowance of the credit or  
25 refund.

1       “(f) Every person subject to tax under this section or  
2 section 601(c)(1) shall, within 30 days after the enactment  
3 of the Revenue Act of 1934, or before commencing business,  
4 register with the collector for the district in which is located  
5 his principal place of business or, if he has no principal place  
6 of business in the United States, with the collector at Balti-  
7 more, Maryland, and shall give a bond, to be approved by  
8 such collector, conditioned that he shall not engage in any  
9 attempt, by himself or by collusion with others, to defraud  
10 the United States of any tax under such sections; that he  
11 shall render truly and completely all returns, statements,  
12 and inventories required by law or regulations in pursuance  
13 thereof and shall pay all taxes due under such sections; that  
14 whenever his sales for any month exceed or are likely to  
15 exceed the amount upon which the sum of such bond was  
16 based he shall immediately give notice thereof to such col-  
17 lector; and that he shall comply with all requirements of law  
18 and regulations in pursuance thereof with respect to tax  
19 under such sections. Such bond shall be in such sum as the  
20 collector may require in accordance with regulations pre-  
21 scribed by the Commissioner with the approval of the Secre-  
22 tary, but not less than \$2,000. The collector may from time  
23 to time require new or additional bond in accordance with  
24 this section. Every person who incurs any liability for tax  
25 under this section or section 601(c)(1) after 30 days after

1 *the enactment of the Revenue Act of 1934, without first regis-*  
2 *tering and giving bond as required by this subsection, shall*  
3 *upon conviction thereof be fined not more than \$5,000 or*  
4 *imprisoned not more than five years, or both, together with*  
5 *the costs of prosecution."*

6 **SEC. 604. TAX ON PRODUCTION OF CRUDE PETROLEUM.**

7 (a) *There is hereby imposed on crude petroleum pro-*  
8 *duced in the United States a tax of one-tenth of 1 cent per*  
9 *barrel of 42 gallons, to be paid by stamp by the producer*  
10 *prior to removal from the premises where produced, refining*  
11 *on the premises, or any other disposition of such petroleum.*  
12 *In determining the quantity of crude petroleum produced,*  
13 *proper allowance shall be made for basic sediment and water.*

14 (b) *The Commissioner shall issue suitable stamps*  
15 *denoting the payment of the tax imposed by this section to*  
16 *each collector, upon his requisition, in such numbers as may*  
17 *be necessary in his district. Such stamps shall be in such*  
18 *form and denominations as the Commissioner shall prescribe,*  
19 *and shall be sold by the collector to producers only, upon*  
20 *application under oath showing necessity therefor.*

21 (c) *No person shall transport any crude petroleum*  
22 *from the premises where produced, or receive crude petro-*  
23 *leum from such transportation, unless such transportation is*  
24 *covered by a run ticket, bill of lading, or similar document*  
25 *bearing stamps denoting the payment of tax on such petro-*

1 *leum, cancelled as prescribed by regulations under this sec-*  
2 *tion. Any crude petroleum transported or received in viola-*  
3 *tion of this section shall be forfeited to the United States.*  
4 *Every person receiving any crude petroleum from trans-*  
5 *portation from the premises where produced shall preserve*  
6 *such stamped documents as a part of the records required*  
7 *by law or regulations in pursuance thereof.*

8 (d) *If any person other than the producer has any*  
9 *interest in crude petroleum subject to tax under this section,*  
10 *such person shall, in lieu of the producer, be liable for so*  
11 *much of such tax as is proportionate to his interest in such*  
12 *petroleum. The tax imposed by this subsection shall be col-*  
13 *lected from such person by the producer, who shall pay such*  
14 *tax to the United States in the same manner as taxes imposed*  
15 *by subsection (a). The producer may collect such tax by*  
16 *withholding the amount thereof from any payment to such*  
17 *person with respect to such petroleum, and the producer is*  
18 *hereby indemnified against the claims and demands of such*  
19 *person for any amounts withheld in accordance with this*  
20 *subsection.*

21 (e) *Every producer shall (in addition to records and*  
22 *reports otherwise required by law or regulation) keep such*  
23 *records of his daily crude oil production as shall be pre-*  
24 *scribed by regulations under this section, and shall make*  
25 *monthly reports thereof under oath at such times and in such*

1 manner as the regulations shall prescribe. Records and re-  
2 ports required under this section shall be open to inspection at  
3 all reasonable hours by any duly authorized representative  
4 of the Commissioner or any agency of the United States or  
5 any State having supervisory or regulatory powers over  
6 the production of crude petroleum.

7 (f) If (1) any person has, prior to the enactment of  
8 this Act, made a bona fide contract for the sale of crude  
9 petroleum with respect to which a tax is imposed by sub-  
10 section (a) or (b) or this subsection and (2) such contract  
11 does not permit the addition to the amount to be paid there-  
12 under of the whole of such tax, then (unless the contract  
13 expressly prohibits such addition) the vendor shall not be  
14 liable for so much of the tax as is not permitted to be added  
15 to the contract price, and the vendee shall pay a tax on the  
16 petroleum purchased equivalent to the amount of the produc-  
17 tion tax not permitted to be added to the contract price.  
18 Taxes payable by the vendee shall be paid to the vendor at  
19 the time the sale is consummated and shall be paid to the  
20 United States by the producer in the same manner as taxes  
21 imposed by subsection (a). In case of failure or refusal  
22 by the vendee to pay such taxes to the vendor, the vendor  
23 shall report the facts to the Commissioner, who shall cause  
24 collection of such taxes to be made from the vendee.

1       (g) As used in this section the term "producer"  
2 means the person operating a well producing crude petroleum  
3 or otherwise taking crude petroleum from the earth or waters  
4 thereof.

5       (h) The Commissioner, with the approval of the Secre-  
6 tary, shall prescribe such regulations as he deems necessary  
7 for the enforcement of this section.

8       (i) All provisions of law (including penalties) ap-  
9 plicable with respect to the taxes imposed by section 600 of the  
10 Revenue Act of 1926, shall, in so far as applicable and not  
11 inconsistent with this section, be applicable with respect to  
12 the taxes imposed by this section.

13       (j) Any person who violates any provision of this  
14 section or who, with intent to defraud, falsely makes, forges,  
15 alters, or counterfeits any stamp made or used under this  
16 section, or who uses, sells, or has in his possession any such  
17 forged, altered, or counterfeited stamp, or any plate or die  
18 used or which may be used in the manufacture thereof, or  
19 who makes, uses, sells, or has in his possession any paper  
20 in imitation of the paper used in the manufacture of any  
21 such stamp or who makes any false statement in any appli-  
22 cation for stamps under this section, or who has in his  
23 possession any such stamp obtained by him otherwise than  
24 as provided in this section or who sells or transfers any  
25 such stamp otherwise than as provided in this section, shall



1 on conviction be punished by a fine not exceeding \$10,000  
2 or by imprisonment at hard labor not exceeding five years,  
3 or by both.

4 (k) This section shall take effect on the day after the  
5 date of the enactment of this Act. The Commissioner with the  
6 approval of the Secretary may provide by regulation for the  
7 payment of the tax imposed by this section by return until  
8 such time (as specified in such regulations) as the stamps  
9 required by this section will be available. The provisions  
10 of subsection (c) shall not be effective until such time.

11 **SEC. 605. TAX ON REFINING OF CRUDE PETROLEUM.**

12 (a) There is hereby imposed (1) on crude petroleum  
13 refined or processed in the United States, a tax of one-  
14 tenth of one cent per barrel of forty-two gallons, to be  
15 paid by the refiner or processor, and (2) on gasoline pro-  
16 duced or recovered in the United States from natural gas  
17 a tax of one-tenth of one cent per barrel of forty-two gal-  
18 lons, to be paid by the person producing or recovering such  
19 gasoline.

20 (b) Every person liable for tax under this section  
21 shall make monthly returns ~~under oath~~ in triplicate for  
22 each plant or refinery, and pay such taxes to the collector  
23 for the district in which such plant or refinery is located.  
24 Such returns shall contain such information and be made  
25 at such times and in such manner as the Commissioner with

1 the approval of the Secretary may be regulations prescribe.  
2 The tax shall, without assessment by the Commissioner or  
3 notice from the collector, be due and payable to the collector  
4 at the time fixed for filing the return. If the tax is not paid  
5 when due there shall be added as part of the tax interest at  
6 the rate of one per centum a month from the time when the  
7 tax becomes due until paid. Every refiner or processor  
8 shall (in addition to records otherwise required by law  
9 or regulation) keep such records as shall be prescribed by  
10 regulations under this section showing daily receipts, stocks,  
11 and disposals of crude petroleum and the names and ad-  
12 dresses of the persons from whom received. Every person  
13 handling, transporting, storing, or dealing in any manner  
14 in crude petroleum shall keep such records with respect to  
15 transactions in crude petroleum as shall be required by  
16 regulations under this section. Returns and records required  
17 under this section shall be open to inspection at all reasonable  
18 hours by any duly authorized representative of the Com-  
19 missioner or any agency of the United States or any State  
20 having supervisory or regulatory powers over the produc-  
21 tion of crude petroleum.

22 (c) If (1) any person has, prior to the enactment of  
23 this Act, made a bona fide contract for the sale of gasoline  
24 or any product of crude petroleum upon which gasoline or  
25 petroleum a tax is imposed by subsection (a) or with respect

1 to which gasoline or product a tax is imposed by this subsec-  
2 tion and (2) such contract does not permit the addition to  
3 the amount to be paid thereunder of the whole of such tax,  
4 then (unless the contract expressly prohibits such addition)  
5 the vendor shall not be liable for so much of the tax under  
6 subsection (a) as is not permitted to be added to the contract  
7 price, and the vendee shall pay a tax on the article purchased  
8 equivalent to the tax under subsection (a) not permitted to  
9 be added to the contract price. Taxes payable by the vendee  
10 shall be paid to the vendor at the time the sale is consummated  
11 and shall be paid to the United States by the vendor in the  
12 same manner as taxes imposed by subsection (a). In case  
13 of failure or refusal by the vendee to pay such taxes to the  
14 vendor, the vendor shall report the facts to the Commissioner,  
15 who shall cause collection of such taxes to be made from the  
16 vendee.

17 (d) As used in this section, the term "gasoline" means  
18 gasoline as defined in section 617 of the Revenue Act of  
19 1932, as amended.

20 (e) The Commissioner, with the approval of the Secre-  
21 tary, shall prescribe such regulations as he deems necessary  
22 for the enforcement of this section.

23 (f) All provisions of law (including penalties) appli-  
24 cable with respect to the taxes imposed by section 600 of the  
25 Revenue Act of 1926, shall, in so far as applicable and not

1 *inconsistent with this section, be applicable with respect to*  
 2 *the taxes imposed by this section.*

3 *(g) This section shall take effect on the day after the*  
 4 *date of the enactment of this Act.*

5 **SEC. 606. TERMINATION OF BANK CHECK TAX.**

6 *Section 751, as amended, of the Revenue Act of 1932*  
 7 *is amended by striking out "July 1, 1935" and inserting*  
 8 *in lieu thereof "January 1, 1935".*

NOTE.—Section 751(a), as amended, of the Revenue Act of 1932, imposing a tax on checks, etc., will, after the above amendment, read as follows:

**SEC. 751. TAX ON CHECKS, ETC.**

(a) There is hereby imposed a tax of 2 cents upon each of the following instruments, presented for payment on or after the 15th day after the date of the enactment of this Act and before ~~July 1, 1935,~~ *January 1, 1935.* Checks, drafts, or orders for the payment of money, drawn upon any bank, banker, or trust company; such tax to be paid by the maker or drawer.

9 **TITLE V—GENERAL PROVISIONS**

10 **SEC. 111 701. DEFINITIONS.**

11 (a) When used in this Act—

12 (1) The term "person" means an individual,  
 13 a trust or estate, a partnership, or a corporation.

14 (2) The term "corporation" includes associa-  
 15 tions, joint-stock companies, and insurance companies.

16 (3) The term "partnership" includes a syndi-  
 17 cate, group, pool, joint venture, or other unincorpo-  
 18 rated organization, through or by means of which any  
 19 business, financial operation, or venture is carried on,  
 20 and which is not, within the meaning of this Act, a

1 trust or estate or a corporation; and the term "part-  
2 ner" includes a member in such a syndicate, group,  
3 pool, joint venture, or organization.

4 (4) The term "domestic" when applied to a  
5 corporation or partnership means created or organized  
6 in the United States or under the law of the United  
7 States or of any State or Territory.

8 (5) The term "foreign" when applied to a cor-  
9 poration or partnership means a corporation or part-  
10 nership which is not domestic.

11 (6) The term "fiduciary" means a guardian,  
12 trustee, executor, administrator, receiver, conservator,  
13 or any person acting in any fiduciary capacity for any  
14 person.

15 (7) The term "withholding agent" means any  
16 person required to deduct and withhold any tax under  
17 the provisions of section 143 or 144.

18 (8) The term "stock" includes the share in an  
19 association, joint-stock company, or insurance com-  
20 pany.

21 (9) The term "shareholder" includes a member  
22 in an association, joint-stock company, or insurance  
23 company.

24 (10) The term "United States" when used in a  
25 geographical sense includes only the States, the Terri-

1        tories of Alaska and Hawaii, and the District of  
2        Columbia.

3                (11) The term "Secretary" means the Secretary  
4        of the Treasury.

5                (12) The term "Commissioner" means the Com-  
6        missioner of Internal Revenue.

7                (13) The term "collector" means collector of  
8        internal revenue.

9                (14) The term "taxpayer" means any person  
10       subject to a tax imposed by this Act.

11               (b) The terms "includes" and "including" when  
12       used in a definition contained in this Act shall not be deemed  
13       to exclude other things otherwise within the meaning of  
14       the term defined.

15       **SEC. 412 702. SEPARABILITY CLAUSE.**

16               If any provision of this Act, or the application thereof  
17       to any person or circumstances, is held invalid, the remainder  
18       of the Act, and the application of such provisions to other  
19       persons or circumstances, shall not be affected thereby.

20       **SEC. 413 703. EFFECTIVE DATE OF ACT.**

21               Except as otherwise provided, this Act shall take effect  
22       upon its enactment.



[COMMITTEE PRINT NO. 1]  
**REVENUE ACT OF 1934**

**COMPARATIVE PRINT**

Showing Changes from Existing Law Made by the  
Bill as Passed by the House of Representatives

72<sup>nd</sup> CONGRESS }  
2<sup>d</sup> Session }

**H. R. 7835**

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**AN ACT**

To provide revenue, equalize taxation, and for  
other purposes.

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FEBRUARY 20 (calendar day, FEBRUARY 22), 1934  
Read twice and referred to the Committee on Finance,